NTT Urban Development Co.

NTT URBAN DEVELOPMENT CO.

ANNUAL REPORT 2009

For the year ended March 31, 2009

Structured for Sustainable Growth

Profile

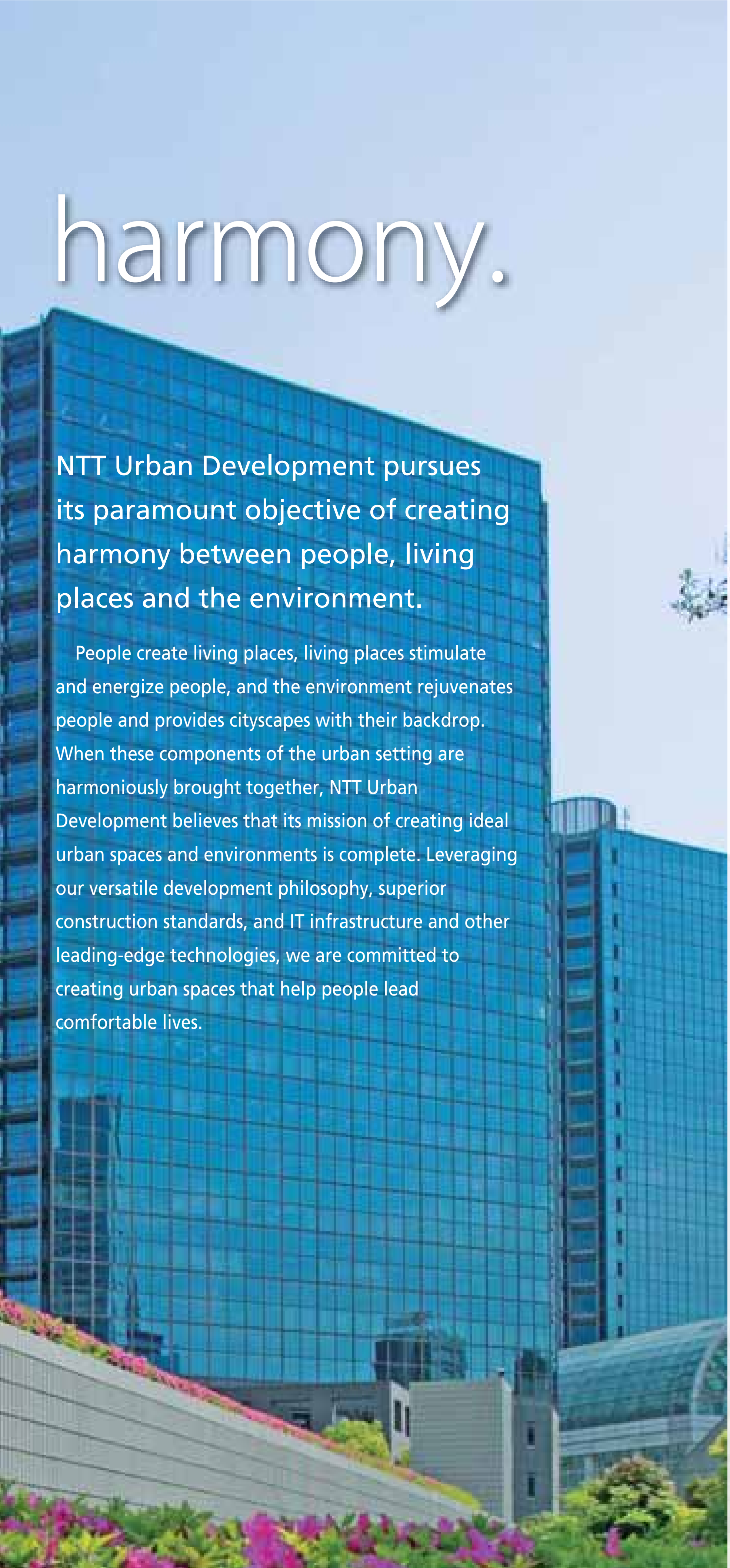
NTT Urban Development Co. has grown steadily since its establishment in 1986 as the sole comprehensive real estate company in the NTT Group, based on the quality properties it received from Nippon Telegraph and Telephone Corporation (NTT), in the core businesses of the Leasing Business, centered on office buildings and commercial facilities, and the Residential Property Sales Business, centered on condominiums. Looking ahead, NTT Urban Development will participate in large-scale projects, undertake independent projects, enter the field of commercial facility development and expand the scope of its property management operations, as well as further its fee-based business through the utilization of real estate funds. Through the development of these activities, NTT Urban Development is transforming into an optimally balanced comprehensive real estate company boasting a superior business portfolio.

The Meaning of Our Logo

Our corporate logo, "Harmonious Stripe," represents our ideal of harmony between people, living spaces and the environment: the vertical lines depict people standing on land, the horizontal lines are the creation of living spaces, and the diagonal lines represent the environment among those spaces. Our corporate color, "Harmonious Green," shows spaces of harmony among people, living spaces and the environment, flexibility and universality in response to the changing times, and the intelligence, style and grace of NTT Urban Development.

Cautionary Note with Regard to Forward-Looking Statements

This annual report contains forward-looking statements which involve certain risks and uncertainties that could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which are based on information available the date thereof. NTT Urban Development assumes no obligation to update and/or announce forward-looking statements to reflect events or circumstances after the date thereof or the occurrence of unanticipated events.



harmony.

NTT Urban Development pursues its paramount objective of creating harmony between people, living places and the environment.

People create living places, living places stimulate and energize people, and the environment rejuvenates people and provides cityscapes with their backdrop. When these components of the urban setting are harmoniously brought together, NTT Urban Development believes that its mission of creating ideal urban spaces and environments is complete. Leveraging our versatile development philosophy, superior construction standards, and IT infrastructure and other leading-edge technologies, we are committed to creating urban spaces that help people lead comfortable lives.

Contents

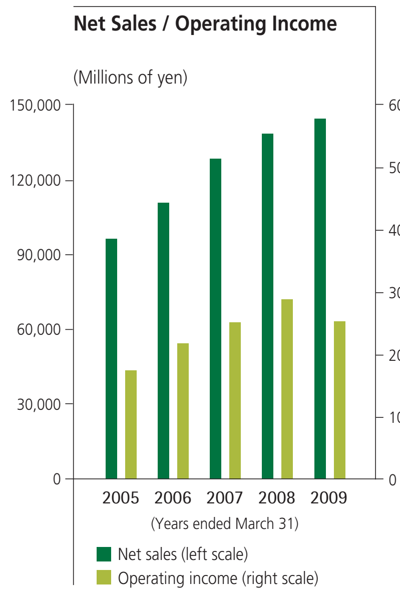
Cover photo: NTT Makuhari Building
Profile photo: Seavans N Building

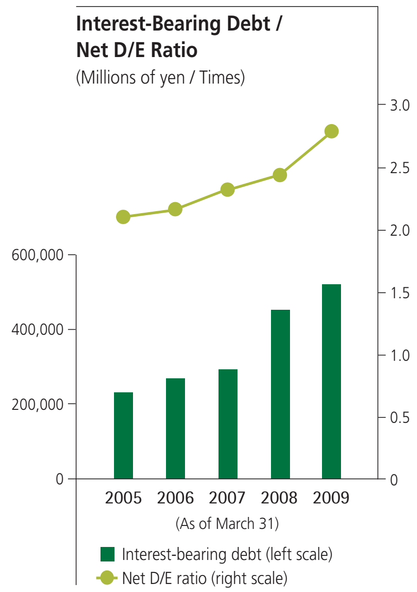
Consolidated Financial Highlights

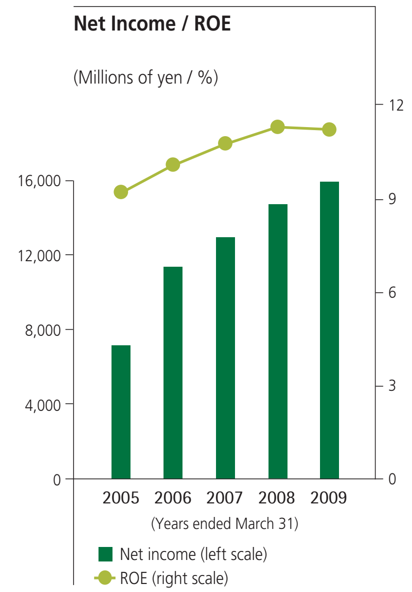
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars[4]	% Change
	2007	2008	2009	2009	2009/2008
For the year:					
Net sales	¥ 128,215	¥ 138,206	**¥ 144,277**	**$1,468,768**	4.4%
Operating income	25,091	28,718	**25,244**	**256,992**	(12.1)
Net income	12,995	14,758	**15,989**	**162,779**	8.3
At year-end:					
Total assets	581,848	900,325	**936,650**	**9,535,281**	4.0
Total net assets	125,169	177,969	**183,593**	**1,869,020**	3.2
Interest-bearing debt	293,069	451,849	**521,070**	**5,304,604**	15.3
Management indicators:					
Net operating income (NOI)[1]	50,504	52,748	**64,277**	**654,353**	21.9
Return on equity (ROE) (%)	10.8	11.3	**11.2**	**—**	—
Equity ratio (%)	21.5	15.1	**15.8**	**—**	—
Net debt-to-equity (D/E) ratio (times)	2.32	2.44	**2.78**	**—**	—
Dividend payout ratio (%)	25.3	26.8	**24.7**	**—**	—
	Yen			U.S. dollars	% Change
Per-share data:					
Net assets[2]	¥38,007.98[3]	¥41,442.57	**¥45,014.04**	**$ 458.25**	—
Net income	3,948.64[3]	4,484.09	**4,858.34**	**49.46**	—
Dividends	1,000[3]	1,200	**1,200**	**12.22**	—

Notes: 1. Net operating income (NOI) = Property rental income - Property rental costs + Depreciation expenses (including prepaid long-term expenses)
2. Net assets per share = (Net assets - Share warrants - Minority interests) ÷ Number of shares outstanding at end of period
3. Per share data is calculated based on the number of issued and outstanding shares after a five-for-one stock split executed on January 1, 2007, which raised the total number of outstanding shares to 3,291,200 shares, and has been prepared based on figures adjusted to reflect the stock split.
4. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥98.23 to US$1.00, the exchange rate prevailing on March 31, 2009.







To Our Shareholders

A Message from the President

Targeting a stable earnings base for continuous growth even in a challenging operating environment

As symbolized by our corporate slogan, “We create harmony,” NTT Urban Development's objective is continuing to create comfortable environments with an optimal balance among people, living spaces, and the environment. Based on this fundamental policy, as the sole comprehensive real estate company in the NTT Group we are redeveloping the high-grade real estate properties received from parent company Nippon Telegraph and Telephone Corporation (“NTT”) at our establishment. In addition, we are aggressively working to commercialize properties acquired from outside in order to develop a strong presence in the leasing business centered on areas including office buildings and commercial facilities, and in the residential property sales business focused on condominiums.

In fiscal 2008, ended March 31, 2009, net sales continued to increase as strong earnings in the leasing business drove overall results. Operating income decreased due to a loss on revaluation of inventories in the residential property sales business, which was included in cost of sales. However, net income increased due to a gain on sales of property and equipment that resulted from an asset reshuffle.

We anticipate that the current challenging market conditions will continue. However, we will strive to increase corporate value through continuous growth by leveraging our stable earnings base to steadily implement the themes of our medium-term management plan, aimed at growing and developing our core leasing and residential property sales businesses and developing new growth fields, including the fund business and asset solutions business.

August 2009

Masaki Mitsumura
President and Chief Executive Officer

An Interview with the President

Real estate market conditions have rapidly deteriorated. How do you view the operating environment, and how do you evaluate the results and initiatives of fiscal 2008 (the year ended March 31, 2009)?

Despite the impact of changes in the operating environment, we were able to increase net sales and net income because of our stable earnings base and reliable business management.

From fall 2008, the effects of the global financial crisis spread to the real economy. The operating environment for the real estate industry became more challenging, with some real estate companies that had difficulties procuring funds declaring bankruptcy. In the office leasing market, the nationwide average vacancy rate in Japan increased significantly, and average rental rates decreased. Challenging conditions for the condominium market continued, including slower sales of properties due to weakened consumer confidence.

Under these circumstances, net sales for fiscal 2008 increased 4.4% year on year to ¥144,277 million. Operating income decreased 12.1% to ¥25,244 million, but net income continued to increase, rising 8.3% to ¥15,989 million due to a gain on sales of property and equipment that resulted from an asset reshuffle.

We were able to produce consistent results in a challenging environment because the leasing business remained strong even as the market softened. This strength comes from leveraging the earnings base and stable business management we have built through means including the strongly competitive high-grade office buildings we have steadily added to our portfolio since our establishment, and the strategic rental negotiations we carry out based on good relationships we have built with tenants over many years. One result of putting these strengths to work was that the average vacancy rate for our properties at the end of fiscal 2008 was substantially lower than the market average.

Competition was fierce in the residential property sales business because of slower sales of properties due to weakened consumer confidence and lower condominium unit sales. However, we carried out initiatives with a medium-

Masaki Mitsumura
President and Chief Executive Officer

term business development perspective, such as acquiring prime sites in central Tokyo. In addition, we worked to build our brands, including creating a logo for our WELLITH brand.

In fiscal 2008, NTT Urban Development aggressively responded to the changes in the operating environment. Our initiatives included expanded investment in real estate as changing market conditions caused prices to ease. Moreover, in Tokyo and Osaka we acquired land for office buildings and income-producing properties that we can redevelop in the future. Our ability to procure funds because of our strong financial position and our ability to make decisions quickly enabled these initiatives.

Given an operating environment of pronounced deterioration in market conditions, our performance in fiscal 2008 is evidence of the strength of our management base.

The themes of the NTT Urban Development Group Medium-Term Management Plan 2010 include further improving development capabilities and profitability. Please discuss the Group's progress in these areas during fiscal 2008, the first year of the plan.

NTT Urban Development Group Medium-Term Management Plan 2010

Business Strategies

1. **Further develop and expand our core leasing and residential property sales businesses**
   - Enhance our development capabilities
   - Strengthen profitability
   - Collaborate with the NTT group
2. **Enter new growth fields**
   - Further develop the fund and asset solutions businesses
   - Expand the scope of the Company's business
3. **Strengthen our management foundation to support steady, long-term growth**
   - Implement financial policies that enhance corporate value
   - Fortify the business base, including governance

Numerical Targets for Fiscal 2010
(Ending March 31, 2011)

Net sales	¥180.0 billion
Operating income	¥36.0 billion
Operating margin	20.0%

We steadily implemented the themes of the medium-term management plan in working toward future growth by consistently strengthening our management base.

The themes of our medium-term management plan are “further develop and expand our core leasing and residential property sales businesses,” “develop new growth fields,” and “strengthen our management foundation to support consistent long-term growth.” Our numerical targets for fiscal 2010, ending March 2011, are ¥180 billion in net sales, ¥36 billion in operating income and an operating margin of 20.0%.

Under the theme “further develop and expand our core leasing and residential property sales businesses,” in April 2009 we completed the Otemachi 1-Chome Urban Area Redevelopment Project Type 1 in the Otemachi district in central Tokyo, where we have deep ties. We also made steady progress in enhancing our development capabilities. For example, a group represented by the Company was selected through public solicitation for the aboveground portion of the Shibaura Water Reclamation Center

An Interview with the President

Redevelopment project. In addition, we moved to enhance profitability by aggressively investing in new income-producing properties and strengthening our organization for leasing large-scale buildings in response to slowing office demand.

Under the "develop new growth fields" theme, we promoted the fund and asset solutions businesses. Successes during fiscal 2008 included the creation and start of management of the NU-5 Fund with approximately ¥29.0 billion in assets in March 2009.

Under the "strengthen our management foundation to support consistent long-term growth" theme, we reshuffled approximately ¥20.0 billion in assets in order to maintain and improve financial soundness and enhance the quality of our asset portfolio. We also maintained our ongoing focus on strengthening our business base by enhancing our organization for corporate governance and corporate social responsibility (CSR).

Thus we made steady progress in executing our medium-term management plan and in further strengthening our business base for future growth. Although I am satisfied with our current progress, we must avoid complacency as we work to achieve the targets of the medium-term management plan because the challenging operating environment is projected to continue.

What business portfolio must NTT Urban Development address given the rapid changes in the external environment? Also, has the Company changed its approach to its business portfolio?

Our goal remains building a balanced, stable business portfolio centered on two core businesses.

For fiscal 2008, our business portfolio generated 67.0% of net sales from the leasing business, 21.9% from the residential property sales business and 11.1% from the other business. The pronounced drop in the residential property sales business caused its share of net sales to decrease by 5.1 percentage points year on year. We will focus on the pressing issues of restoring profitability in the residential property sales business, carrying out planning that better matches consumer needs and selectively supplying properties.

However, residential property sales will remain an important business because we generate synergies by applying the accumulated know-how of the office building development and leasing business, and the NTT Group will continue to promote the profitable deployment of underutilized assets. The residential property sales business serves different markets than the leasing business. Increasing its share of net sales over the medium-to-long term in ways such as developing WELLITH brand condominiums will therefore diversify our business portfolio and further enhance the stability of operations.

As described above, NTT Urban Development will maintain its policy of focusing on the two core businesses of leasing and residential property sales while working to develop new growth fields including the fund business. This will strengthen our earnings base by creating a stable business portfolio with even better balance.

Given the acute turmoil in financial markets, NTT Urban Development's strong financial position provides a competitive advantage over other companies. Going forward, what are the Company's investment policies and financial strategies?

We are working to increase our financial soundness through selective investment and asset reshuffling while maintaining our high credit ratings.

NTT Urban Development's long-term debt carries an Aa3 rating[1] from Moody's Investors Service, Inc. and an AA- rating[2] from Rating and Investment Information, Inc. because of the stable earnings structure and strong financial position the Company has built since its establishment. These are among the highest ratings for Japanese real estate investment companies, which enables low-cost fund procurement. Real estate development requires a large amount of capital. Given the current turmoil in financial markets, strong funding capabilities are therefore a particularly important advantage that will help us maintain our sound financial structure.

The Company focuses on the net debt-equity (D/E) ratio[3] as a key indicator of its financial soundness. We continued to invest aggressively during fiscal 2008, with investment totaling ¥75.6 billion compared with ¥93.3 billion in the previous fiscal year. As a result, the net D/E ratio increased to 2.78 times. Our medium-to-long-term target is a net D/E ratio at the 2.3 times level, which we

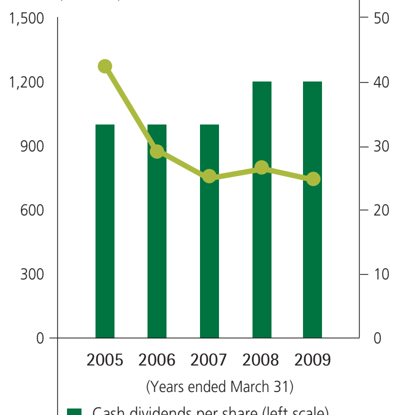
An Interview with the President

will achieve by increasing shareholders' equity through the accumulation of profits and by continuing to conduct more selective investment and asset reshuffling.

Notes: 1. As of June 30, 2009
2. As of June 30, 2009
3. Net debt-equity (D/E) ratio = (Interest-bearing debt - Cash and cash equivalents - Time deposits exceeding three months) ÷ (Net assets)

Cash dividends per share for fiscal 2008 were the same as for fiscal 2007. What is NTT Urban Development's basic policy for shareholder returns and increasing shareholder value?

Cash Dividends per Share / Dividend Payout Ratio
(Yen/%)



Note: On January 1, 2007, the Company completed a five-for-one stock split. Graph data for prior years has been restated accordingly.

We will work to increase corporate value with the aim of stable, long-term distribution of profits.

NTT Urban Development considers increasing shareholder value an important management issue. Based on a long-term perspective to management in the real estate business, our basic policy is to achieve stable, long-term distribution of profits while enhancing the internal capital resources required to increase corporate value in the future. In accordance with this policy, for fiscal 2008 we paid an interim cash dividend of ¥600 per share and a year-end dividend of ¥600 per share, for total cash dividends of ¥1,200 per share. The dividend payout ratio was therefore 24.7%. In addition, we will allocate internal capital resources for investment in new development projects that will contribute to corporate value. For fiscal 2009, ending March 31, 2010, we plan to pay cash dividends totaling ¥1,200 per share, the same as for fiscal 2008.

I am confident that we can increase shareholder value by further increasing corporate value through the steady implementation of our medium-term management plan. While the current severe operating environment is forecast to continue, NTT Urban Development will use its strong earnings base and financial position to succeed in taking on the challenges it faces. I would like to thank our shareholders for their continuing support.

Feature: Structured for Sustainable Growth

Drastic changes in the operating environment resulting from global financial instability are affecting the real estate industry. This challenging environment brings out a company's true strengths. This feature introduces the sources of strength for NTT Urban Development, which continues to run its growth engines based on its structural advantages rather than simply trying to survive the recession.

☑ Growth from Continuing Development

Property development is the lifeline of growth for a real estate company. This section introduces the strengths that have allowed NTT Urban Development to continue with constant development largely unaffected by changes in the external environment.

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☑ Growth from an Area-based Focus

NTT Urban Development has a policy of clearly defining the areas in which it invests. This section covers the rationale for this policy and potential areas of growth.

>>> Page 12

☑ Growth from Cooperation with the NTT Group

NTT Urban Development is the sole comprehensive real estate company in the NTT Group. This section introduces our advantages as we make maximum use of Group synergies to attain reliable growth in a challenging operating environment.

>>> Page 14

☑ Growth from Continuing Development

NTT Urban Development sees the development of new properties as the source of growth. We achieve stable growth through sound, steady and sustained development.

Rationale for Continuing Development

We believe that continuously developing income-producing properties is the source of ongoing growth for a comprehensive real estate company. In addition, constantly continuing development largely unaffected by the external environment has the merit of enabling stable management, including diversifying properties by age and facilitating investment plans for reconstruction or renovation. We also consider continuing development important because it allows us to accumulate leading-edge know-how that maintains and improves our advantages as a developer.

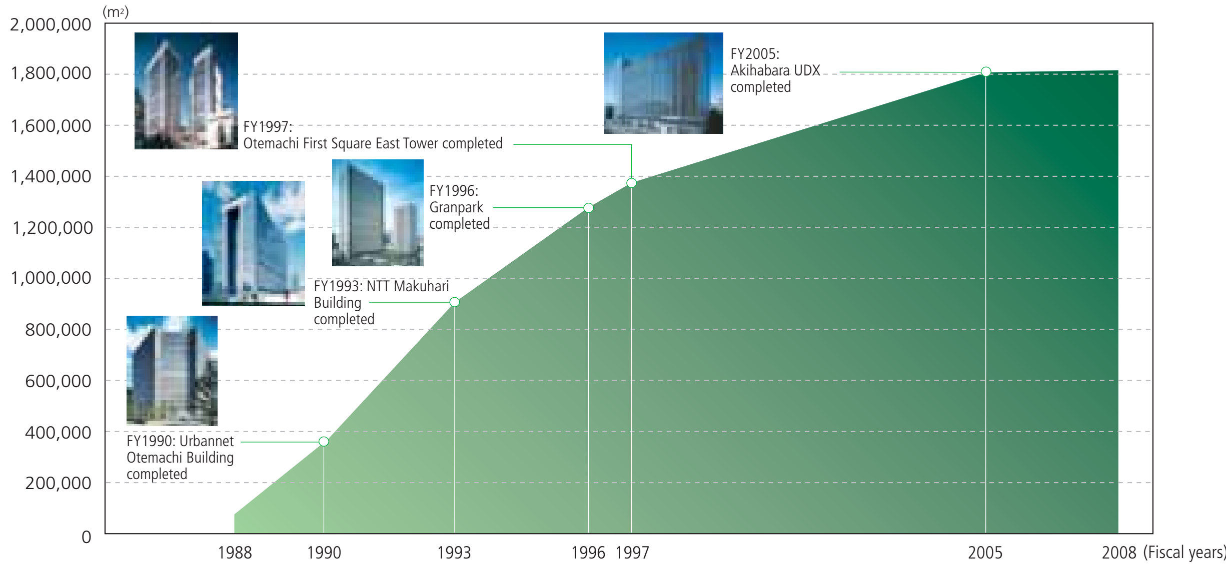
A Trajectory of Development and Growth

In the ten years since its establishment, the Company has rapidly expanded by developing core buildings including Urbannet Otemachi Building and Otemachi First Square, which were acquired as investments in kind and are in prime locations.

Sound, sustained property development has subsequently continued unabated. The cumulative total of floor space we have developed now exceeds 1.8 million m^2.

We are also moving ahead into the future. Our large-scale projects include the Osaka Station North District Phase 1 Development Area Project in the last remaining prime parcel in Umeda-ku, Osaka, and the Shijo Karasuma Building (provisional name) in Shijo Karasuma, Kyoto. We have also become involved in a new development project near Shinagawa Station in Tokyo as a group that we represent was selected through public solicitation for the aboveground portion of the Shibaura Water Reclamation Center Redevelopment project.

Completion and Development Performance of Major Properties (Cumulative Building Floor Space)



The Strengths of NTT Urban Development

We have developed over 100 office buildings in the 20 years since our establishment as a result of our sustained approach to development. Through this process we have accumulated fundamental know-how as a developer, including the use of systematic techniques such as urban planning, coordinating the rights of related landowners and tenant leasing. This kind of expertise takes time to acquire, making the firm management base we have built through continuing development a core strength.

Moreover, upon its establishment NTT Urban Development employed tax law benefits to acquire land for development in prime locations at low book value from NTT. Our portfolio is also relatively new, with approximately 70% of our portfolio properties less than 15 years old. As a result, we have many comparatively profitable and competitive properties, which is an important factor enabling stable operations.

Message from the Senior Executive Manager of the Development Promotion Department

Development is one of our chief missions. Rather than fall into the trap of contracting with the market, we need sustained development to keep building assets. Continuously acquiring sites for development helps us obtain information on properties, which in turn creates a virtuous cycle involving new property acquisition and development. Moreover, sustained participation in development projects benefits us from the perspective of nurturing human resources because we can disseminate development approaches, know-how and skills throughout the Company. We will be able to create the next generation of comfortable spaces by adding new technologies and other tools to our base of young employees who have learned their approaches through the development business.

We have contributed to society by working to build attractive urban landscapes under the theme of creating comfortable living environments that foster harmony among people, living spaces, and the environment. This stance will not change as we conduct sustained development to create comfortable living spaces with the two aims of contributing to local communities and generating corporate growth.

Yoshiharu Nishimura
Senior Director,
Senior Executive Manager,
Development Promotion Department

☑ Growth from an Area-based Focus

We will grow efficiently by diversifying our asset portfolio beyond Tokyo and the surrounding area to include regional cities and focusing investment on specific areas in each region.

Rationale for Focusing Investment on Specific Areas

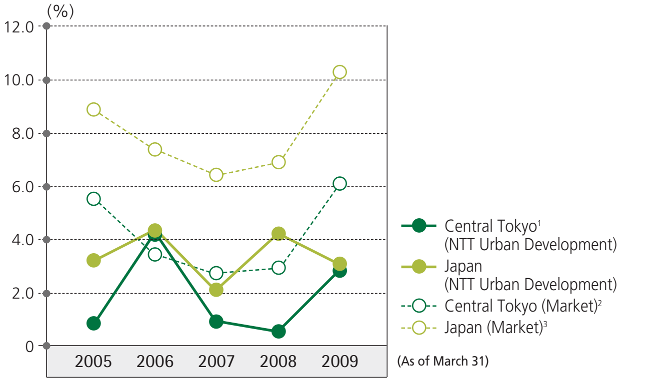
NTT Urban Development's basic strategy is to narrow down the areas where it carries out development and carefully select investments within them. This focused approach adds multiple properties in the same area to our portfolio, which allows our leasing operations to provide a wide range of choices to potential tenants. This broad range of options helps us close deals with tenants and enables synergies among buildings in ways such as allowing us to use nearby properties we own to efficiently meet the needs of tenants who want to expand after signing a contract. We also expect synergies among NTT Urban Development buildings and NTT Group assets in central Tokyo, where office demand is stable, and have designated the general area from Shinagawa to Akihabara along the Yamanote line as our key area of investment. We are also promoting development in key business districts such as the Umeda area in Osaka, and are working on projects where we expect synergies with neighboring properties that we own in areas including Shijo Karasuma in Kyoto and Tenjin in Fukuoka.

Rationale for Regional Development

We undertake development in regional cities in addition to Tokyo and the surrounding area in order to geographically diversify our asset portfolio and enhance its resistance to fluctuations in the office leasing market. Our regional diversification strategy has consistently demonstrated its value. For example, stable income from regional properties underpinned results in 2003 when a large supply of new office space came on the market in central Tokyo and caused vacancy rates to rise.

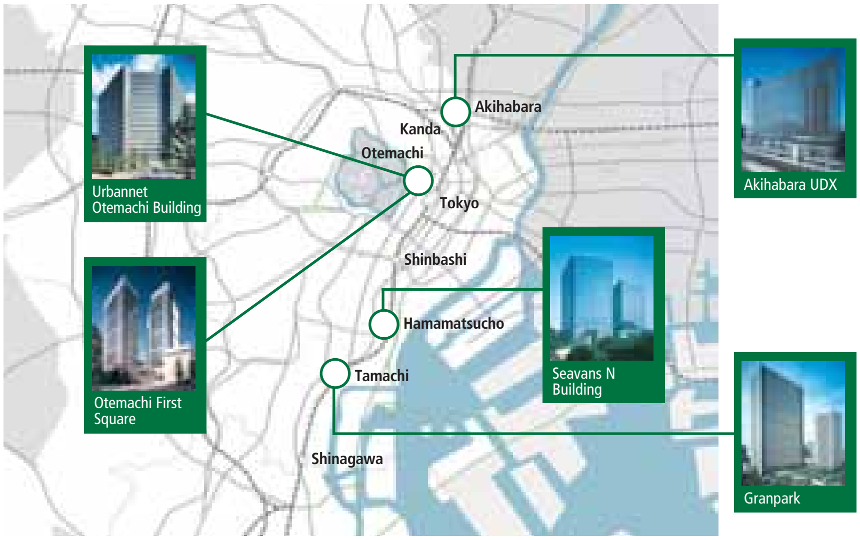
Moreover, our buildings are highly competitive in terms of location and grade, and strong leasing capabilities enabled by close cooperation between the head office and branches have kept our vacancy rate below the average in each region.

Vacancy Rate



Notes: 1. Central Tokyo: Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku and Shinjuku-ku
2. Source: Miki Shoji Co., Ltd.
3. Simple average of vacancy rates of Tokyo, Yokohama, Osaka, Nagoya, Fukuoka, Sendai and Sapporo as published by Miki Shoji Co., Ltd. (calculation by NTT Urban Development)

Main Areas of Investment in Central Tokyo



The Otemachi 1-Chome Urban Area Redevelopment Project Type 1

Case Study: The Otemachi Area (Chiyoda-ku, Tokyo)

NTT Urban Development has deep ties in the Otemachi area, where the core properties Urbannet Otemachi Building and Otemachi First Square are located. The Otemachi 1-Chome Urban Area Redevelopment Project Type 1 uses an innovative approach called linked urban redevelopment.* This project is the first phase in linked urban redevelopment of office buildings rather than shutting down the functions central to the Japanese economy that are concentrated in Otemachi.

* Linked urban redevelopment is a method of carrying out urban renewal in consecutive stages. It begins with replatting to assemble the parcel and transfer titles within the development area, followed by consecutive first, second and third phases of site redevelopment. The Otemachi 1-Chome Urban Area Redevelopment Project Type 1 has attracted attention because it is the first project to employ this innovative method for large-scale redevelopment of a mature site.

Message from the Project Manager

Otemachi 1-Chome Urban Area Redevelopment Project Type 1

Hideto Ikeda
Executive Manager
Development Promotion Department

The Otemachi 1-Chome Urban Area Redevelopment Project Type 1 is a large-scale redevelopment project in which we are cooperating with the public sector to reconstruct the site. We are using a linked urban redevelopment method for the first time in Japan because the project involves office buildings in Otemachi, which is a business district central to the Japanese economy, and this project has been extremely challenging because it has no precedents. Many office buildings in the central business districts of Japan's major cities were built in the high-growth period that followed the Second World War, and therefore we forecast that demand for reconstruction and redevelopment will increase in the future. The expertise we are acquiring is highly meaningful because the linked urban redevelopment method is very effective for minimizing the impact of urban renewal on the business activities of tenant companies.

☑ Growth from Cooperation with the NTT Group

As the sole comprehensive real estate company in the NTT Group, NTT Urban Development supports the Group's real estate strategies and continuously grows through collaboration with other Group companies.

The Role of NTT Urban Development within the NTT Group

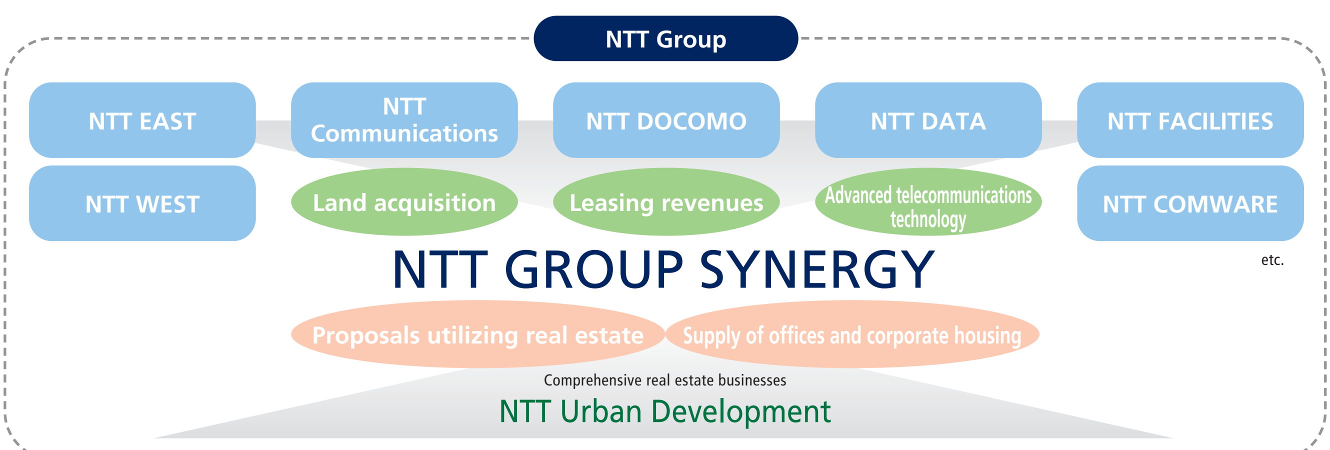
NTT Urban Development plays two main roles as the sole comprehensive real estate company in the NTT Group.

The first role is contributing to the expansion of the NTT Group's non-communications business based on the knowledge built up through its real estate operations. NTT Urban Development has expanded steadily since its establishment in 1986.

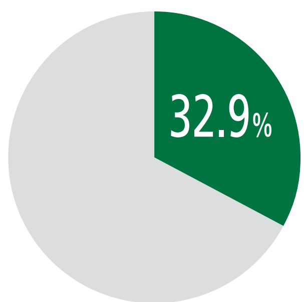
The second role is supporting the NTT Group's real estate strategies. We play a key role in promoting the effective use of the NTT Group's superior real estate, and we also support the office strategies of NTT Group companies.

Procuring Inventory from the NTT Group

NTT Urban Development has consistently acquired properties from the NTT Group every year. Many of these feature superior locations and living environments, which adds to the appeal of condominiums and detached housing developed on them. In 2008, we acquired a superior site in central Tokyo that we will use for condominium development.



Share of Leasing Revenue from NTT Group



(Year ended March 31, 2009)
(Nonconsolidated basis)

Photo by Kokyu Miwa Architectural Photography

Granpark

A "triple complex" building featuring offices, a shopping zone, and residences

- Location: Minato-ku, Tokyo
- Footprint: 14,227m²
  (Portion owned by NTT Urban Development)
- Floor space: 138,423m²
  (Portion owned by NTT Urban Development)
- Size: 34 floors above ground, four below
- Completed: August 1996
- Awards: '97 Japan Sign Design Association (SDA) Awards (Public Sector Award)
  '98 Green City Awards (Yomiuri Shimbun Prize)

Supporting the NTT Group's Office Strategies

NTT Urban Development receives approximately 30% of its leasing revenue on a non-consolidated basis from its core NTT Group tenants. Our initiatives therefore include strengthening our organization for making sales proposals to the NTT Group, which was exemplified during 2008 when we replaced a key tenant at one of our principal buildings, Granpark in Shibaura, Minato-ku, Tokyo. Replacing a key tenant usually carries the risk of decreased leasing revenue. However, we were able to limit this risk by replacing the former tenant with an NTT Group company. The NTT Group tenant company benefited because it was able to raise efficiency and reduce expenses by centralizing several dispersed offices in a single location.

Message from the Tenant NTT Group Company

Hideyuki Yamasawa
General Manager,
General Affairs Department,
NTT Communications Corporation

Our company has brought together our development division, which had been dispersed throughout Tokyo, at our Tamachi office in Granpark. Under the concept that "Technology is digital, communication is analogue," we are promoting the use of digital documentation and created a layout that uses numerous "communication spaces" rather than meeting rooms so that we can easily hold our typical meetings involving two or three people. Moreover, by gathering staff together in one office we expect to significantly reduce operating costs in ways such as substantially reducing overlap between divisions, curtailing maintenance costs by decreasing the number of copiers and other office equipment, and cutting back on the cost of traveling among dispersed offices. NTT Urban Development has provided us with wide-ranging assistance in operating our office smoothly, including comprehensive consulting services ranging from initial analysis of the move to implementing cost-reduction measures.

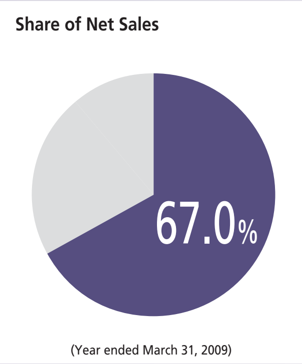
Review of Operations

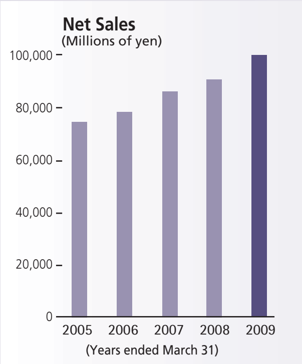
NTT Urban Development at a Glance

NTT Urban Development is centered on its core leasing business and the residential property sales business, and conducts property management for office buildings and other activities through the other business.

Leasing Business

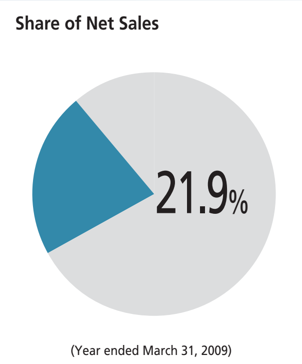
Since the foundation of NTT Urban Development, the business has developed, owned and collected rental revenue from office buildings, commercial facilities, residential housing, and other properties on prime locations in Tokyo, Nagoya, Osaka, Hiroshima, Fukuoka, Sapporo, and other major cities in Japan. As a core business, it serves as a stable earnings base.

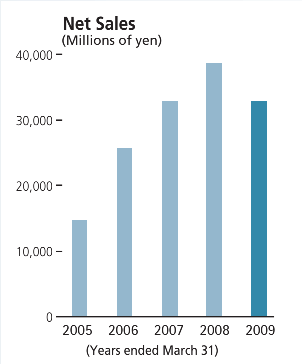




Residential Property Sales Business

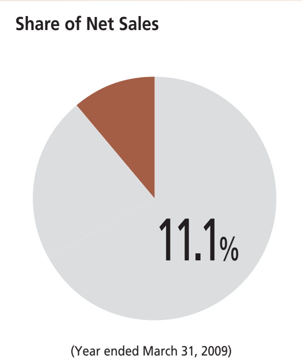
The residential property sales business was launched in 2000 and centers on development and sales of condominiums. Led by the mainstay WELLITH brand of condominiums, the business also conducts various location-driven operations, including subdivided sales of building lots and others.

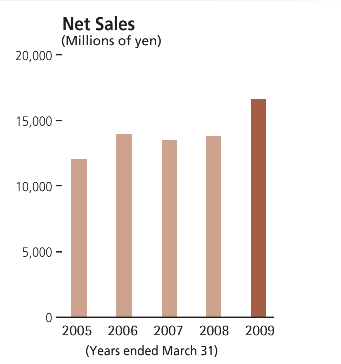




Other Business

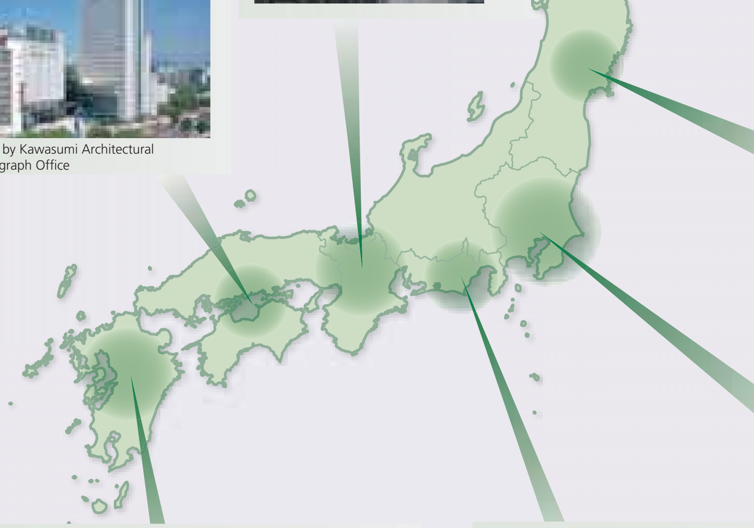
This business conducts tenant remodeling, building management and operation of food service facilities that contribute to enhancing the added value of the leasing business. In addition, while promoting the fund business and asset solutions business as new growth fields, we are working to develop new businesses and international business focused on fields related to the real estate industry.





The leasing business maintains a balanced portfolio of properties in major cities across the country. The majority of the properties are in prime locations in high-revenue urban centers, including many buildings that are landmarks in their local regions.

(As of March 31, 2009)



Chugoku/ Shikoku Area

Rental properties: 6

NTT Cred Motomachi Building
Location: Naka-ku, Hiroshima-shi
Footprint: 21,801m²
Floor space: 160,418m²
Completed: March 1994

Photo by Kawasumi Architectural Photograph Office

Kansai Area

Rental properties: 40

UD Midosuji Building[1]
Location: Chuo-ku, Osaka-shi
Footprint: 2,097m²
Floor space: 11,284m²
Completed: October 1967

Hokkaido Area

Rental properties: 12

Urbannet Sapporo Building
Location: Chuo-ku, Sapporo-shi
Footprint: 5,369m²
Floor space: 31,255m²
Completed: October 2004

Photo by Forward Stroke

Tohoku/ Shinetsu Area

Rental properties: 8

Urbannet Itsutsubashi Building
Location: Aoba-ku, Sendai-shi
Footprint: 3,902m²
Floor space: 12,859m²
Completed: April 1998

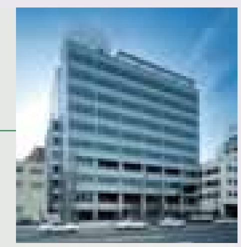


Photo by Forward Stroke

Tokyo and the Surrounding Area

Rental properties: 55

Urbannet Otemachi Building
Location: Chiyoda-ku, Tokyo
Footprint: 9,361m²
Floor space: 117,618m²
Completed: June 1990

Photo by Kokyu Miwa Architectural Photography

Kyushu Area

Rental properties: 9

NTT-T Building
Location: Chuo-ku, Fukuoka-shi
Footprint: 8,526 [249m²][2]
Floor space: 61,506m²
Completed: September 1996

Photo by Hiroshi Ito

Tokai Area

Rental properties: 19

Urbannet Nagoya Building
Location: Higashi-ku, Nagoya-shi
Footprint: 5,997 [950m²][2]
Floor space: 75,047m²
Completed: September 2005

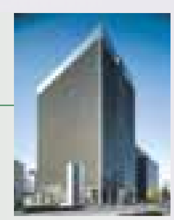
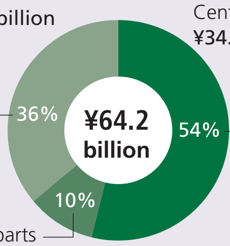


Photo by Kurumata Photography Office

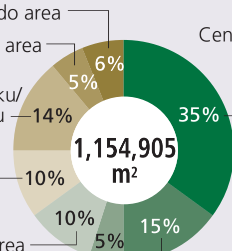
* The number of rental properties held in each area is shown. Figures include properties held by NTT Urban Development's subsidiaries.
Notes:
1. Because this is a joint-ownership property, the share of floor space corresponding to the share of ownership is shown.
2. Because a portion of these structures are on leased land, the share of floor space corresponding to the share of owned land is shown. Accordingly, the figure in brackets represents the footprint for the leased portion.

NOI by Region



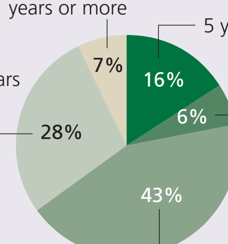
(Year ended March 31, 2009)

Leasable Floor Space by Region



(As of March 31, 2009)
Note: On a consolidated leasable floor space basis (offices and commercial facilities only)

Portfolio Age Range



(As of March 31, 2009)

* Central Tokyo: Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku and Shinjuku-ku

Leasing Business

Net sales and operating income increased due to an increase in rental revenue from occupancy at new properties and strategic rent negotiations. The business's foundation is expanding steadily with the smooth progress of large-scale development projects.

The leasing business develops and owns office buildings, commercial facilities and rental housing in Tokyo and other major regional cities to earn leasing revenue. As a core business of NTT Urban Development and a stable earnings base, it accounted for 67.0% of the Group's total net sales in fiscal 2008, ended March 31, 2009.

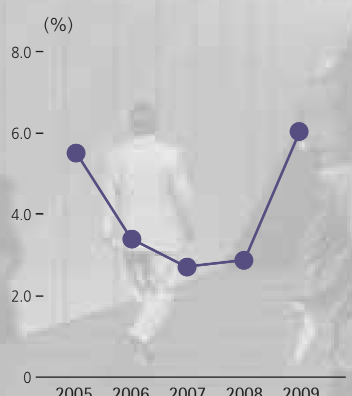
Offices and commercial facilities comprise the overwhelming share of the properties, accounting for 92.0% of net sales in the leasing business in fiscal 2008. We own a well-balanced portfolio of properties in Tokyo and regional cities, with 50% of properties in Tokyo and the surrounding area and 50% elsewhere in fiscal 2008, based on rentable area. On a net operating income (NOI) basis, which we emphasize as an indicator for judging the value of properties for the leasing business, 64% was in Tokyo and the surrounding area and 36% elsewhere during the period.

We aim to steadily expand the business by working to enhance the value of properties in our portfolio through renovation investment, while developing new properties and acquiring existing properties to improve profitability.

Assessment of the Operating Environment

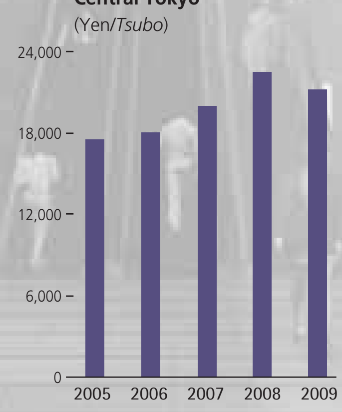
Uncertainty is growing in the outlook for the office rental market, which had been active in recent years, as demand shows signs of slowing due to worsening corporate earnings following a rapid slowdown in the economy. The vacancy rate in central Tokyo increased from 2.9% as of March 31, 2008 to 6.1% as of March 31, 2009. In addition, the average rental rate per *tsubo* (approximately 3.3m^2) decreased from ¥33,716 to ¥31,290 for newly constructed buildings and from ¥22,070 to ¥20,995 for existing buildings. However, office supply in the 23 wards of Tokyo was 630,000m^2 in 2008, the second-lowest in the past 20 years, and is forecast to remain below the historical average of 1.04 million m^2 until 2010. Although office supply is forecast to remain low, the severe operating environment of the leasing business is projected to continue for the time being due to the rapid drop in office demand.

Vacancy Rate in Central Tokyo



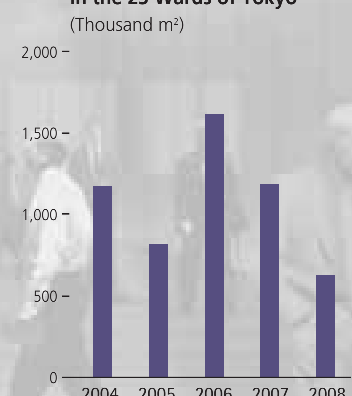
(As of March 31)
(Source: Miki Shoji Co., Ltd.)

Average Rental Rate in Central Tokyo



(Years ended March 31)
(Source: Miki Shoji Co., Ltd.)

Supply of Large-Scale Offices in the 23 Wards of Tokyo



(Calendar years)
(Source: MORI TRUST Co., Ltd.)

Overview of Operations

In the leasing business, both sales and profits increased compared with the previous fiscal year. This reflects the effect of making UDX Tokutei Mokuteki Kaisha (Special Purpose Company), which owns Akihabara UDX, a consolidated subsidiary, leasing revenue from newly acquired properties including Tradepia Yodoyabashi, and an increase in leasing revenue from existing properties, including the Urbannet Otemachi Building and Otemachi First Square. The vacancy rates for the office buildings and other property owned by the Group remained low compared to the average vacancy rate in the market. However, the average vacancy rate of the Group's buildings in central Tokyo rose from 0.5% at the end of fiscal 2007 to 2.8% at the end of fiscal 2008. The average vacancy rate of the Group's buildings throughout Japan fell from 4.2% to 3.1%.

In the new building development business, the Otemachi 1-chome Urban Area Redevelopment Project Type 1 was completed on April 1, 2009, while the Shijo Karasuma Building (tentative name), the Osaka Station North District Phase 1 Development Area Project and other projects are progressing smoothly. In addition, in steadily paving the way for future growth, a group represented by NTT Urban Development has been chosen by the Tokyo Metropolitan Government Bureau of Sewerage through public solicitation to develop the aboveground section of the Shibaura Water Reclamation Center in association with rebuilding the center. Moreover, we acquired land for future development in the Kanda area of Chiyoda-ku, Tokyo.

As a result of the above, net sales in the leasing business were ¥99,928 million (up 11.1% year on year), operating income was ¥35,560 million (up 36.6%) and the operating margin improved from 28.9% to 35.6%. Net operating income was ¥64,277 million (up 21.9%), a significant increase due to aggressive acquisition of profitable properties.

Akihabara UDX
Photo by Forward Stroke

Urbannet Otemachi Building
Photo by Kokyu Miwa Architectural Photography

Otemachi First Square
Photo by Nacasa & Partners

Topics

Start of Construction of Shijo Karasuma Building (tentative name)

The Shijo Karasuma Building (tentative name) will be a multipurpose complex of offices and commercial space at the intersection of Karasuma-dori, Kyoto's financial and business center, and Shijo-dori, a bustling commercial street. We are the sole planner and developer of this project, which began construction in February 2009 (scheduled completion: autumn 2010).

The Shijo Karasuma area has been improving its appeal, with a series of new commercial facilities and brand shops opening in recent years. Together with Shin-Puh-Kan, a nearby commercial facility we opened in 2001, we will promote development in our aim to create landmark buildings befitting the bustling center of Kyoto.

Establishment of the Commercial Properties Development Promotion Department

We established the Commercial Properties Development Promotion Department in April 2009 as part of aggressive development of commercial facilities to strengthen development expertise by diversifying asset classes, a target outlined in our medium-term management plan.

In addition to formulating overall business strategy for commercial properties, the Commercial Properties Development Promotion Department will promote their development and management. It will form the center of cross-sectional coordination of our commercial facilities in order to accumulate knowledge and know-how concerning development and management as we expand throughout Japan. The Commercial Properties Development Promotion Department will cooperate with branch offices in attracting tenants for ongoing projects including the Shijo Karasuma Building in Kyoto and the Tenjin Building in Fukuoka, which target major tenants with operations throughout Japan in addition to superior local tenants.

Group Represented by NTT Urban Development Chosen through Public Solicitation for Aboveground Section Development in Redevelopment of Shibaura Water Reclamation Center

This project will build an environment-conscious building with offices and commercial facilities above an underground sewerage facility of the Tokyo Metropolitan Government Bureau of Sewerage (scheduled completion: 2014).

The project is an ecological model building of Japan's highest standards, aimed at developing a sustainable 21st century city. It makes use of the features of the aboveground section of the Shibaura Water Reclamation Center as well as the reclaimed water and the untapped heat and natural energy of sewerage to reduce the heat burden from the building and suppress the heat island effect.

In addition, further development is expected to follow the superior transportation convenience that will result from large-scale redevelopment in progress in the area around the east exit of Tokyo's Shinagawa Station, the location of the planned construction. We look forward to taking part in enhancing the area's appeal.

Interview

Backed by our highly competitive properties, we aim to overcome the severe operating environment and grow steadily by providing detailed services from the customer's point of view.

Michihiko Kaite
Executive Director,
Senior Executive Manager,
Building Service Headquarters

The severe operating environment makes NTT Urban Development's advantages over other companies stand out. What are its competitive advantages in terms of the quality of its properties and the value it provides to customers?

One source of our competitive advantage is that we own numerous high-grade properties that are relatively few years old in prime locations throughout Japan, with a focus on central Tokyo. Because our leasing business centers on offices and commercial facilities, we will experience the effect of the economic downturn to some degree. However, with our numerous superior properties, our performance will remain steady compared to the market average and our competitors.

Moreover, one of our major strengths is our ability to respond quickly and accurately to customer needs based on customer feedback and real-estate management know-how and data accumulated over many years. NTT Urban Development sees the leasing business as a service industry, and all employees are dedicated to providing detailed services from the customer's point of view. This kind of corporate culture takes time to create, and plays a part in our competitive advantage. We will work to further deepen this culture, including the incorporation of customer satisfaction concepts into real estate management.

Maintaining occupancy rates will be important amid growing uncertainty in the outlook for the real estate leasing market. Please explain your specific policies for maintaining occupancy rates.

Reinforcing the relationships of trust we have built with customers over many years is essential to maintaining occupancy rates, which is our primary task in the current fiscal year. We work on a daily basis to raise customer satisfaction through sales activities conscious of customers' desires, and I think that helps to maintain our occupancy rates. Another factor is enhancing value by strengthening our leasing system and renovating existing buildings. To strengthen our leasing system, we have already launched a company-wide project team, and a structure capable of detailed identification of customer desires is taking shape. Our plans to renovate existing buildings in fiscal 2009 are on the order of ¥12.0 billion. We will aim to enhance asset quality by reflecting customer feedback in targeted renovation plans that are based on the type and location of each respective building.

Residential Property Sales Business

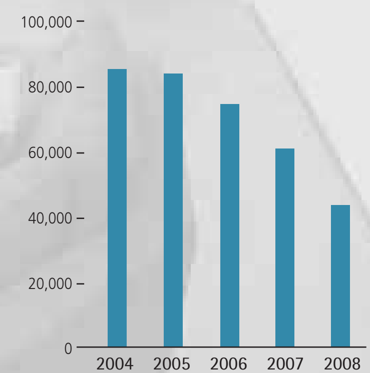
Slower sales due to the severe market environment and recording of a loss on revaluation of inventories resulted in an operating loss.

The residential property sales business conducts condominium development and sales through our WELLITH brand as well as various location-driven operations, including sales of subdivided building lots and others. As a core business of NTT Urban Development, it accounted for 21.9% of total net sales in fiscal 2008, ended March 31, 2009. We work to further strengthen competitiveness by acquiring carefully selected building lots and enhancing product plans, brand equity and after-sales services.

Assessment of the Operating Environment

Sales in the condominium market slowed noticeably as consumer confidence clearly weakened against a background of employment insecurity following the rapid economic downturn. The supply of new condominiums in Tokyo and the surrounding area in 2008 was 43,733 units, half of the peak level, and inventory remained high at 12,427 units (8,846 units as of March 31, 2009). On the sales front, the number of visits to model rooms is showing signs of recovering against a backdrop of low interest rates and tax incentives, in addition to a drop in prices. However, the severe operating environment is expected to continue for the near future, and we are placing attention on careful property selection and reducing stock. However, with a strong base of latent demand among consumers born in the 1970s, area selection and product plans that match customers' needs are becoming increasingly important.

Supply of New Condominium Units in Tokyo and the Surrounding Area



(Calendar years)
Source: Real Estate Economic Institute Co., Ltd.

Interview

We will work to strengthen and spread the WELLITH brand in aiming for stable business operations by developing and supplying distinctive properties that earn customer trust.

Hideo Osawa
Executive Director,
Senior Executive Manager,
Residential Development Department

Overview of Operations

In fiscal 2008, although we sought to establish the WELLITH brand and further strengthen sales by developing a new logo, our bottom line worsened significantly due to slower sales resulting from a slowdown in the market and the recording of a loss on revaluation of inventories. We delivered a total of 563 condominium units in fiscal 2008, including Wellith City Omori Tower, Wellith Komagome Residence, Wellith Minami Funabashi, Wellith Park Chayagasaka, and Wellith Takatsuki Park Square. In addition, we launched unit sales at Wellith Takanawa, Maison Glanz-Wellith Andou, Wellith Yao Honmachi, and other buildings. In building lot sales, we sold 387 lots, including at Wellith Park Shingu Morinomiya.

As a result, net sales were ¥32,688 million (down 14.9% year on year) and operating loss was ¥6,018 million (compared to operating income of ¥6,593 million in fiscal 2007).

Brand Message

WELLITH = Sensible Quality

WELLITH

Well (comfort) + With (together) = WELLITH (living together in comfort)

We aim to provide superior residences of distinctive quality that customers will live in comfortably.

Wellith City Omori Tower
Photo by Forward Stroke

What are the competitive advantages of the residential property sales business in terms of comparison with competitors and customer evaluation?

Our strength is the high quality of our properties, backed by a high level of technical capability. Our dedication to quality extends not only to the façade and facilities that attract customers' attention, but also to the structural framework and other non-visible elements based on the WELLITH concept of "Long-Life Value." Development faithful to these fundamentals is part of our identity. Many customers buy our properties after being convinced of their high quality by an explanation from our technical staff. This is a major advantage over our competitors.

What are your upcoming policies for the residential property sales business, which is expected to continue to face a severe environment?

Although the current situation is definitely severe, latent demand for condominiums is strong, and we expect some degree of recovery. Keeping an eye on market recovery, we will work to strengthen and spread our WELLITH brand in fiscal 2009. To that end, while our policy is to increase exposure through a variety of public relations channels, we will promote truly essential, brand-centered area selection and product plans, as we steadily add to our lineup of condominiums under the WELLITH brand.

Other Business

Net sales and operating income increased due to the steady performance of the building management business, as a stock business, and the asset solutions business. We are building a stable earnings base for the future by steadily expanding the scale of building management and assets under management.

The other business conducts tenant remodeling, building management and operation of food service facilities related to the leasing business. In addition, while promoting the fund business and asset solutions business as new growth fields, we are working to develop new businesses and international business focused on fields related to the real estate industry.

Business Overview

Main Business	Business Content	NTT Urban Development Group
• Tenant remodeling • Building management • Building operation	Building design, implementation and construction, and maintenance and operation, mainly for buildings owned by NTT Urban Development	• NTT Urban Development Builservice Co. • NTT Urban Development Hokkaido BS Co. • NTT Urban Development West BS Co.
• Building management • Operation of related facilities	Management and operation of buildings owned by NTT Urban Development and related facilities, etc.	• Otemachi First Square Inc. • Motomachi Parking Access Co., Ltd. • Tokyo Opera City Building Co., Ltd.
• Heating and cooling supply	Heating and cooling supply to buildings owned by NTT Urban Development, etc.	• DHC Tokyo Co., Ltd. • Tokyo Opera City Heat Supply Co., Ltd.
• Restaurant operation	Operation of restaurants for tenants of buildings owned by NTT Urban Development and membership assembly facilities	• Knox Twenty-One Co., Ltd. • DN Food Co., Ltd.
• Fund business	Fund asset management business and property management business	• NTT Urban Development Co. • NTT Urban Development Builservice Co.

Kazuhiro Hasegawa
Senior Director,
Senior Executive Manager,
Real Estate Investment
Promotion Department

Fund Business

NTT Urban Development entered the real estate fund market in 2006 by launching the NU-1 Fund. Various aims included using the fund as an exit strategy for the buildings we develop, generating a steady revenue flow from asset management and property management fees, and creating more business opportunities through property acquisitions, cooperative ventures, and other activities.

We launched the NU-5 Fund in March 2009 to follow on from the NU-1 Fund, a private placement fund that completed its exit in the same month. The fund portfolio consists of Urbannet Mita Building and Urbannet Azabu Building as properties transferred from the Company, and part of the properties transferred from the NU-1 Fund. Our aim is for a stable fund composed specifically

Overview of Operations

In the other business in fiscal 2008, net sales were ¥16,624 million (up 20.1% year on year) and operating income was ¥1,500 million (up 54.0%). The increases were due to factors including revenues from tenant remodeling and building management.

Looking ahead, in addition to expanding business centered on consolidated subsidiaries, including continuing to conduct office remodeling at tenant request related to the leasing business, we will work to actively develop new growth fields by promoting the fund business and asset solutions business, expanding new businesses and promoting international business.


Tenant remodeling


A food service operated by a Group company as part of the other business

of office buildings in Tokyo and the surrounding area, mainly in central Tokyo. We envision assets under management on the order of approximately ¥29.0 billion and an operating period of three years. The total operating balance of our fund business will be approximately ¥57.0 billion as a result.

Strengthening and expanding the fund business is one part of developing new growth fields, stated in the NTT Urban Development Group Medium-Term Management Plan 2010. To that end, we established the Real Estate Investment Promotion Department in July 2009 by spinning off the Fund Business Department from the Solution Business Headquarters, of which it had been an internal organization.

Led by the Real Estate Investment Promotion Department, we will aim to maximize Group profits and endeavor to further expand fund scale.


Urbannet Mita Building


Urbannet Azabu Building

Principal Portfolio Properties

Office Buildings

Many of NTT Urban Development's properties are in prime locations suitable to conducting business. Designed and completed after 1986, they are equipped with the latest air conditioning, security systems, telecommunications infrastructure and other facilities, providing functional and comfortable office spaces complimenting the creative atmosphere of business.

Photo by Kawasumi Architectural Photograph Office

Photo by Kokyu Miwa Architectural Photography

Photo by Forward Stroke

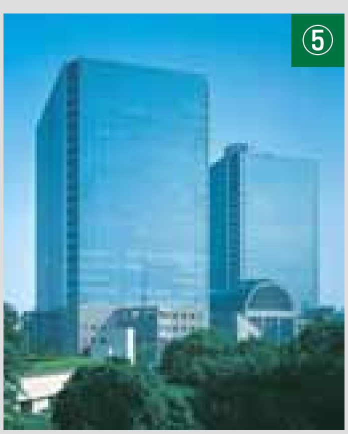


Photo by Monma Kaneaki

Photo by Kurumata Photography Office

Photo by Nacasa & Partners

❶ Tokyo Opera City

A dynamic "theater city" unparalleled anywhere in the world, this complex combines cultural facilities with a business zone

- Location: Shinjuku-ku, Tokyo
- Footprint: 3,831m^2 (Portion owned by NTT Urban Development); Floor space: 33,086m^2 (Portion owned by NTT Urban Development)
- Size: 54 floors above ground, four below
- Completed: August 1996
- Awards: '00 Building Contractors Society (BCS) Awards (Special Prize)
  '00 Japan Association for Real Estate Sciences Business Performance Award

❷ NTT Makuhari Building

A 26-story structure serving as an R&D base for sophisticated information and communications services in the 21st century

- Location: Mihama-ku, Chiba-shi
- Footprint: 40,602m^2; Floor space: 170,499m^2
- Size: 26 floors above ground, one below
- Completed: June 1993
- Awards: '94 Intelligent Awards (Merit Award)

❸ Urbannet Otemachi Building

A base for business on the global stage, featuring 3,250m^2 of pillar-free floor space on each floor

- Location: Chiyoda-ku, Tokyo
- Footprint: 9,361m^2; Floor space: 117,618m^2
- Size: 22 floors above ground, five below
- Completed: June 1990
- Awards: '91 Illuminating Engineering Institute of Japan Award for Outstanding Lighting (Lighting Facilities Merit Award)
  '91 Japanese Society of Commercial Space Designers Awards (Merit Award)
  '91 Japan Sign Design Association (SDA) Awards (System Division Award)
  '92 Building Contractors Society (BCS) Award

❹ Akihabara UDX

A new symbol of the Akihabara district designed to be a global IT center

- Location: Chiyoda-ku, Tokyo
- Footprint: 11,547m^2; Floor space: 155,629m^2
- Size: 22 floors above ground, three below
- Completed: January 2006
- Awards: '06 Japan Sign Design Association (Encouragement Prize)
  '07 Japan Sign Design Association (SDA) Awards (Grand Prize/METI Minister's Prize)

* Akihabara UDX is owned by the UDX Tokutei Mokuteki Kaisha, a Special Purpose Company (SPC) that is a consolidated subsidiary of NTT Urban Development.

❺ Seavans N Building

An intelligent building with the NTT Group's most advanced technologies that respond to sophisticated information society needs

- Location: Minato-ku, Tokyo
- Footprint: 13,144m^2; Floor space: 78,488m^2
- Size: 24 floors above ground, two below
- Completed: January 1991
- Awards: '91 Japanese Society of Commercial Space Designers Award
  '91 Japan Sign Design Association (SDA) Encouragement Awards (System Division and Symbol Division)
  '91 Urban Design Center Cityscape Grand Prize (Landscape Design Division)
  '92 Building Contractors Society (BCS) Award
  '93 Society of Heating, Air Conditioning and Sanitary Engineers of Japan Awards (Technology Award for Building Mechanical Service System)

❻ Otemachi First Square

Intelligent offices appropriate for the multimedia era — the Otemachi district's first twin tower, designed for maximum amenity

- Location: Chiyoda-ku, Tokyo
- Footprint: 6,236m^2; Floor space: 54,284m^2 (Portion owned by NTT Urban Development)
- Size: 23 floors above ground, five below (West Tower)
  Size: 23 floors above ground, four below (East Tower)
- Completed: February 1992 (West Tower) / May 1997 (East Tower)
- Awards: '97 Fire and Disaster Management Agency Secretary Prize for Fire Fighting and Disaster Preparedness System
  '98 Illuminating Engineering Society of North America's International Lighting Design Awards (Special Award for Outdoor Lighting)
  '98 Japan Sign Design Association (SDA) Awards (Second-place Prize, District Design Prize)

❼ Urbannet Nagoya Building

Highly comfortable work space with superior energy conservation features based on the concept of "a next-generation building with people-, community-, and earth-friendliness for the environmental protection era."

- Location: Higashi-ku, Nagoya-shi
- Footprint: 5,997 [950]m^2; Floor space: 75,047m^2
- Size: 22 floors above ground, three below
- Completed: September 2005
- Awards: '06 Good Design Awards (Architecture/Environment Design Division Merit Award)
  '06 Japan Sign Design Association (SDA) Awards (Chubu District Encouragement Prize)
  '06 Illuminating Engineering Institute of Japan Awards (Facilities Prize)
  '06 Aichi Prefecture Machinami Architecture Prize

* A portion of land for the Urbannet Nagoya Building is a leased property. Accordingly, the figure in brackets represents the footprint for the leased portion.

Residential Properties

In the core Residential Property Sales Business, NTT Urban Development offers the WELLITH brand of residential properties, developed based on the concept of "Creating perfect residences through customer-developer collaboration." The objective is to create locations for abundant lifestyles by building quality dwellings with high asset value.

Photo by Forward Stroke

Photo by Forward Stroke

❶ Wellith Komagome Residence

- Location: Toshima-ku, Tokyo
- Size: 52 residences
- Completed: June 2008

❷ Wellith Minami Funabashi

- Location: Funabashi-shi, Chiba
- Size: 107 residences
- Completed: July 2008

❸ Wellith City Omori Tower

- Location: Ota-ku, Tokyo
- Size: 172 residences
- Completed: August 2008

Management Systems
Initiatives for Corporate Social Responsibility (CSR) Activities

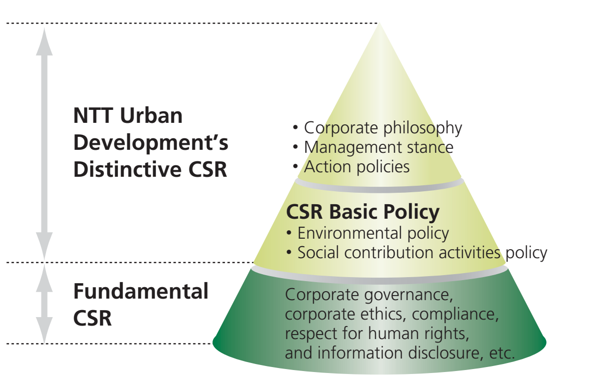
CSR Basic Policy

People create living spaces, living spaces stimulate and energize people, and the environment provides the backdrop for the peaceful interplay between people and the urban landscape. From its inception in 1986, NTT Urban Development has implemented many initiatives in its business activities under the belief that its social responsibility is to harmoniously bring these elements together to create ideal urban spaces.

The NTT Urban Development CSR Basic Policy, revised in June 2009, provides the foundation for the Group's corporate social responsibility (CSR) management. The Group conducts various activities to ensure full and widespread understanding of CSR policies, including providing CSR training, conducting Groupwide employee surveys and benchmark surveys, and analyzing employee comments and opinions. In fiscal 2007, the Group initiated the CSR Management Action Plan, to be implemented by fiscal 2010. It presents specific goals and practices to implement in business activities and provides for regular reviews. As one accomplishment of the Action Plan, in May 2008 the Group announced its Policy on Corporate Social Responsibility, which sets directions for the Group's CSR policy.

Our CSR management centers on building better relationships with all stakeholders and earnestly implementing CSR in our business activities as we endeavor to fulfill our corporate slogan of "We create harmony." Successful execution of the Action Plan will require raising CSR awareness and promoting a unified effort from employees. To this end, we held Employee Caravans 19 times in various locations in fiscal 2008 to provide a Group work setting in which to carry out active dialogue with employees about environmental preservation and social contribution activities for integration into the Action Plan. We intend to continue efforts to raise CSR awareness among all of our employees and apply CSR management to achieve the objectives of the NTT Urban Development Group Medium-Term Management Plan 2010.

CSR Management Policy System



Harmony between People and Living Spaces

Harmony with Valued Partners

Since 2007, we have held the "Pacela Role-Playing Contest" for sales staff of tenants at the Pacela shopping and dinning complex of the NTT Cred Motomachi Building, one of our representative facilities, in order to enhance customer satisfaction. The contest centers on popularity and communication ability in simulated customer interaction to improve understanding of customer needs and service skills. The participants who perform best appear as Pacela representatives in the Chugoku-Shikoku Branch Role-Playing Contest held by the Japan Council of Shopping Centers. The three participants from Pacela in fiscal 2008 all took awards. The NTT Urban Development Group will promote more comfortable urban spaces through communication with tenants as valued partners.

Awards ceremony of the role-playing contest

CSR Web Page

http://www.nttud.co.jp/english/csr

The Company's CSR web page presents the NTT Urban Development CSR Basic Policy, the CSR Management Policy System and information on harmony with stakeholders. We will continue working to enhance the web page for better communication with our stakeholders.

Harmony between Living Spaces and the Environment

Introducing LED Lighting* in the Urbannet Kotodai Building

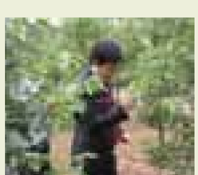
In the Urbannet Kotodai Building in Aoba-ku, Sendai, we introduced LED floor lighting in the section of the first floor leased for use as a convenience store. Installation was completed on May 15, 2009. Whereas ceiling lighting installation is normally within the scope of the tenant's work, we accomplished the project together with the tenant after obtaining their understanding of our LED lighting proposal. With the enforcement of the Revised Rationalization in Energy Use Law, building owners and tenants are required to take environmental initiatives from their respective points of view. In the future, we plan to propose environmental measures that we can carry out jointly with the tenant companies in our buildings.

* Features of LED Lighting

LED lighting is currently attracting industry attention as an environmentally friendly lighting source because it reduces energy consumption and heat generation compared with fluorescent and incandescent bulbs, has a long life, and does not contain mercury, a hazardous substance.

Azvery Hills Acquires Nagareyama-shi Green Chain 2-Star Certification

NTT Urban Development's Azvery Hills condominium acquired Green Chain 2-Star Certification from Nagareyama-shi, Chiba, as the highest ranking for a housing complex. Under the slogan “The urban forest closest to the city center,” Nagareyama-shi Green Chain Certification encourages preservation of a verdant environment by setting guidelines, evaluating and certifying greenification and environmentally conscious facilities that promote pleasant scenery, curb the heat island effect and prevent global warming. We agree with that goal, and conducted site planning for this project that significantly increased space for greenery. We worked to create a pleasant living environment and streets filled with flowering trees on the property that reflect the changing seasons, as well as providing a park.



Azvery Hills (top)
Greenery selection and planting (bottom)

Green NTT Initiatives (Investment in NTT Green LLP)

Green NTT is an initiative of the NTT Group as a whole to strengthen global warming countermeasures by promoting the use of solar power and other natural energy sources. It helps limit cost increases for environmental preservation in line with CO_2 emissions regulations and coincides with a trend among investors to emphasize a corporation's stance on the environment. The initiative aims for clean energy generation on the order of 5MW for the entire Group by 2012 including existing facilities, which will be the largest scale in Japan excluding solar panel manufacturers. Our investment in NTT Green Limited Liability Partnership (LLP), which was set up for this purpose, is aimed at the efficient construction and operation of solar power systems. We are also considering solar panel installation, mainly on the buildings in our portfolio.

Harmony between Employees and Society

Environmental Preservation Initiatives from Employee Ideas

Using UD+, our internal website for promoting information sharing among employees and organizations and mutual understanding, we asked employees what they wanted to do as well as what they expected of the Group regarding environmental preservation and social contribution activities. Out of the numerous ideas received, we produced NTT Urban Development's original eco-bag and personal chopsticks. Many employees use them conscientiously when buying lunch in place of plastic bags or disposable chopsticks from stores.

Continued Inclusion in the FTSE4Good Socially Responsible Investment (SRI) Index

Notification of Continued Inclusion in FTSE4Good Received on May 8, 2009

The FTSE4Good Index series was launched in 2001 by the FTSE Group, funded jointly by the The Financial Times Ltd. and the London Stock Exchange plc of the United Kingdom. It selects stocks from approximately 2,400 listed companies in 23 countries that meet international environmental and social standards, providing opportunities to invest in global companies that meet global standards in their CSR. The stocks of approximately 900 companies are currently included, and NTT Urban Development was selected to remain in the index.

FTSE4Good

Corporate Governance/CSR Management System

Basic Policy on Corporate Governance

The NTT Urban Development Group recognizes strong corporate governance as a fundamental management issue and views the implementation of governance measures as an essential element to maximizing corporate value. In order to deepen the trust-based relationships it maintains with stakeholders, including shareholders and other investors, as well as customers, business partners, and local communities, the Group's basic stance is to raise management efficiency by operating with full management transparency and accountability and giving its attention to establishing solid risk management, corporate ethics and compliance.

NTT Urban Development employs a system of corporate auditors. As stipulated in Japan's Company Law, the Company has established governance organizations comprising the General Ordinary Meeting of Shareholders, the Board of Directors, the Board of Corporate Auditors, and the accounting auditor. The Company has also established the Management Council, which deliberates with the President on matters of management importance within his decision-making capacity with the goal of ensuring speedy decision making related to the execution of duties. In addition, full-time corporate auditors attend Management Council meetings to further enhance transparency in the decision-making process.

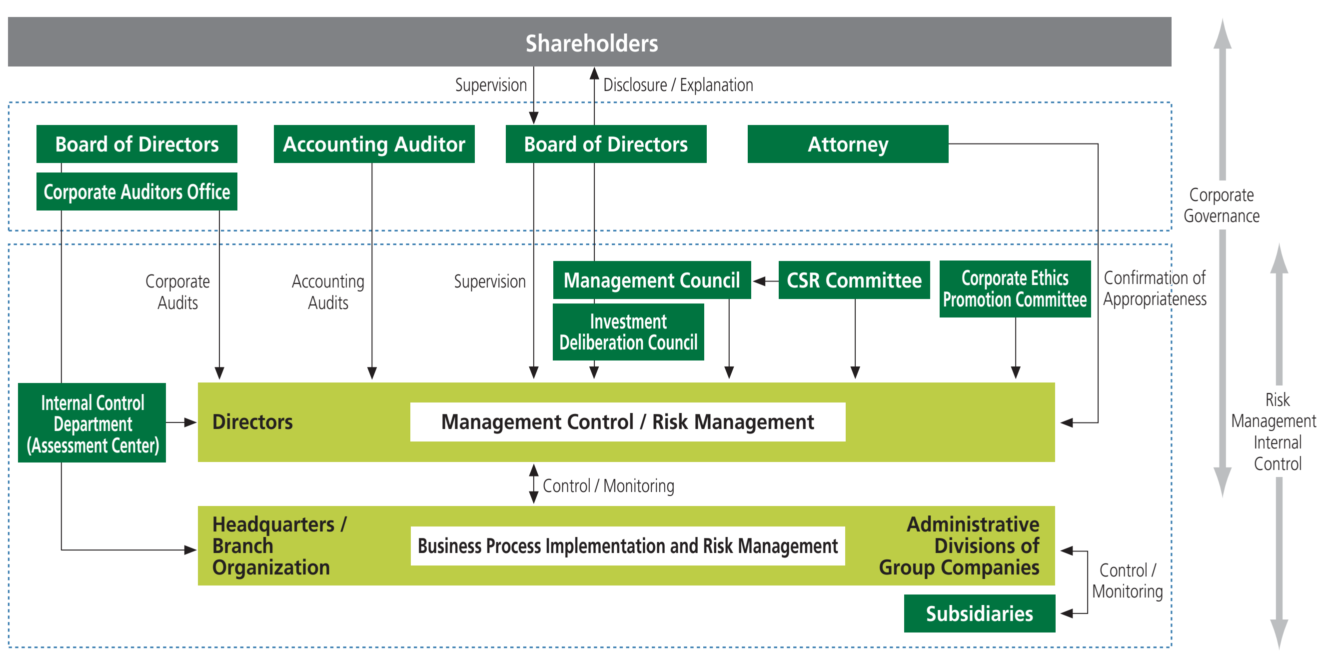
Moreover, for proposed investments, the Investment Deliberation Council conducts risk management by prudently considering investment and other risks ahead of Management Council meetings.

In fiscal 2008, ended March 31, 2009, the Board of Directors comprised 16 Directors, one of whom was an outside Director. The Board decides important matters, sets basic policies regarding the Company's management and business execution, and supervises the execution of duties by Directors. In principle, the Board of Directors convenes regularly once a month with additional meetings as necessary to ensure speedy decision making, and met 31 times in fiscal 2008.

The Board of Corporate Auditors has four members, all of whom are outside auditors. In principle, the Board of Corporate Auditors meets regularly once a month and holds additional meetings as necessary, and met 32 times in fiscal 2008. Corporate auditors conduct their duties according to the audit plan established by the Board of Corporate Auditors. The corporate auditors attend Board of Directors meetings and other important meetings, evaluate the Directors' execution of their duties, conduct management audits, and audit the status of the Company's assets.

As of June 18, 2009, the Board of Directors comprised 15 Directors, including one outside Director, and the Board of Corporate Auditors comprised four members, all of whom were outside auditors.

Corporate Governance/CSR Management System



CSR Management System

Reflecting our view of the fundamental importance of CSR, in December 2005 we established the CSR Promotion Office as the organizational head for a comprehensive CSR structure. The CSR Committee meets regularly, chaired by the CSR Director (a full-time director) and comprised mainly of departmental senior executive managers, branch office executive managers and corporate auditors. It conducts extensive reviews to support CSR activities throughout the Group, including formulating the CSR Basic Policy, planning CSR activities for the year, and formulating the CSR Action Plan. The CSR Committee met five times in fiscal 2008.

Upgrade Status and Specific Initiatives of the Internal Control System

The President is in charge of business execution involving the creation and upgrade of an internal control system, under the supervision of the Board of Directors and the Board of Corporate Auditors. In accordance with the May 1, 2006 enforcement of the Company Law, the Board of Directors passed a resolution on May 11, 2006 on the Company's Internal Control System Basic Policy. Following the establishment of the Disaster Response Committee and the Disaster Risk Management Promotion Office in order to enhance and upgrade a system to respond appropriately in the event of disaster, the Board of Directors revised the basic policy on March 30, 2009.

The Internal Control Committee was established in March 2007 to ensure compliance with the Financial Instruments and Exchange Law, including the internal control reporting system, which took effect from fiscal years beginning on or after April 1, 2008.

Risk Management

NTT Urban Development believes that it can carry out more appropriate and bolder management decisions in order to maintain and increase corporate value by understanding various internal and external risks and implementing appropriate initiatives for risk management as an essential part of its internal control system.

In March 2007, NTT Urban Development reviewed its Internal Control System Basic Policy and formulated a set of risk management rules and regulations. In this manner, the Company works to secure continuous and stable business development through appropriate management of a variety of risks.

As an example of its efforts to implement thorough risk management, the Company seeks to identify and minimize all potential risks in development project investment decisions. Such risks include rent decreases, construction delays, neighborhood backlash, and ground pollution or other environmental risks.

Investment Deliberation Council

The Investment Deliberation Council meets to conduct appropriate decision making regarding investments through prudent assessment of investment risk. Composed of members representing a cross-section of the Company, it deliberates business viability and necessity in relation to the development, investment, disposal and modification of individual proposals from development sections that require Management Council resolution. Specific considerations include the propriety of acquisition and development of new properties and land in the leasing business, acquisition and development of land in the residential property sales business, and additional investment for large-scale remodeling. The Investment Deliberation Council met 38 times in fiscal 2008.

Business Continuity Plan (BCP)

NTT Urban Development launched a working group to formulate a Business Continuity Plan (BCP) from fiscal 2007 based on the NTT Urban Development Group Medium-Term Management Plan 2010. After assessing individual risks based on the risk management rules and regulations and deciding priorities in formulating the BCP, the Company's BCP has been classified into preventative items and critical response items.

In addition to aiming for safe building design and services for the peace of mind of people working at offices and commercial facilities and facility visitors, the Company considers disaster preparation an important issue. To enhance and promote disaster response, in December 2008 the Company further promoted its BCP for envisioned large-scale disasters by establishing the Disaster Risk Management Promotion Office in the Building Service Headquarters to promote companywide safety and security measures within disaster initiatives.

Corporate Ethics and Compliance

The Company's measures to build a structure for corporate ethics and compliance have included establishing the Corporate Ethics Promotion Committee to deliberate policy, conducting training, providing a consultation service for employees, and other related activities.

Matters Relating to Outside Directors and Outside Corporate Auditors

The Company maintains one outside Director and four outside corporate auditors to provide a wide range of management perspective. The Company has appointed an executive from Nippon Telegraph and Telephone Corporation (NTT) as an outside director and another as an outside auditor. NTT maintains a shareholding ratio of 67.3% in the Company. However, the Company requested these appointments and conducts its management decisions independently.

Attendance of Outside Officers at Board of Directors Meetings and Board of Corporate Auditors Meetings in Fiscal 2008

		Board of Directors		Board of Corporate Auditors	
		Attendance	Attendance Rate	Attendance	Attendance Rate
Director	Outside Part-time*	20 of 25	80.0%	—	—
Corporate Auditor	Outside Full-time	31 of 31	100.0%	32 of 32	100.0%
Corporate Auditor	Outside Full-time	31 of 31	100.0%	32 of 32	100.0%
Corporate Auditor	Outside Full-time	31 of 31	100.0%	32 of 32	100.0%
Corporate Auditor	Outside Part-time	28 of 31	90.3%	27 of 32	84.4%

* Appointed June 19, 2008.

Attendance frequency covers Board of Directors and Board of Corporate Auditors meetings at which attendance was required, following appointment.

Officer Compensation

The Company utilizes a performance-based compensation system with Director remuneration comprising a monthly salary and bonus payments. The monthly salaries are determined based on each Director's role and level of responsibility. Bonus payments are largely determined in reference to the Company's performance results.

In addition, during a Director's term of service, a minimum specified amount of each Director's monthly salary is utilized to acquire Company stock, which is administered under a Directors' stock accumulation plan.

Compensation Paid to Directors and Corporate Auditors in Fiscal 2008

Classification	Number of persons	Amount paid (Millions of yen)
Directors (including one outside Director)	17 (0)	350 (—)
Corporate auditors (including outside auditors)	3 (3)	59 (59)
Total	20	409

Notes: 1. By a resolution ratified at the Company's 22nd General Ordinary Meeting of Shareholders held on June 21, 2007, the maximum annual allowances for compensation of Directors and corporate auditors were set at ¥480 million and ¥80 million, respectively.
2. Included in the above are two Directors who retired as of the conclusion of the 23rd General Ordinary Meeting of Shareholders held on June 19, 2008.
3. Directors' compensation includes ¥38 million in bonuses related to fiscal 2008.
4. In addition to the above, ¥24 million in employee compensation was paid to employees who serve concurrently as Directors, and ¥2 million in Directors' bonuses was paid to two Directors who retired as of the conclusion of the 22nd General Ordinary Meeting of Shareholders held on June 21, 2007.

Hikozaemon Enoki
Corporate Auditor

Message from an Outside Auditor

Securing sound management and corporate reliability is indispensable to solid development and fulfillment of a company's role as a public entity in order to respond to the expectations of its shareholders and other stakeholders.

For that reason, a corporate auditor's role is to oversee the status of upgrading, operation and other aspects of corporate governance, compliance, and the internal control system from a viewpoint independent of management.

NTT Urban Development was listed on the Tokyo Stock Exchange in 2004 as the comprehensive real estate company of the NTT Group, and has been growing steadily. In light of the enforcement of Japan's Company Law since then, I believe the Company has worked steadily to upgrade and operate corporate governance, compliance and its internal control system.

The real estate industry came under difficult conditions in fiscal 2008 due to the effect of the global financial downturn. Under these circumstances, management must respond with prudent judgment for sustainable growth and stable management. I will carry out my responsibility as a corporate auditor through exchange of opinion with management to promote appropriate risk management and other management activities.

Directors and Auditors (As of July 2009)

President and Chief Executive Officer

Masaki Mitsumura

Senior Executive Director

Kimito Muragishi
Director on Special Assignment

Executive Directors

Hiroto Miyake
Senior Executive Manager, Solution Business Headquarters

Seiya Wakaizumi
In charge of CSR and Tokai Branch, Kyushu Branch, Hokkaido Branch Office

Michihiko Kaite
Senior Executive Manager, Building Service Headquarters

Hideo Osawa
Senior Executive Manager, Residential Development Department

Senior Directors

Hideki Tokunaga
In charge of Commercial Properties Development Promotion Department and Chugoku Branch Office

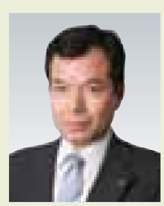
Akitoshi Ito
Executive Manager, Kansai Branch Office

Takahiro Okuda
Senior Executive Manager, Corporate Planning Department
In charge of Accounting and Finance Department

Yoshiharu Nishimura
Senior Executive Manager, Development Promotion Department

Satoshi Shinoda
Deputy Senior Executive Manager, Solution Business Headquarters
Senior Executive Manager, Solution Business Department 1

Kazuhiro Hasegawa
Senior Executive Manager, Real Estate Investment Promotion Department



Hiroshi Iijima
Deputy Senior Executive Manager, Building Service Headquarters
Senior Executive Manager, Building Service Planning Department
Senior Executive Manager, Disaster Risk Management Promotion Office

Shiro Nakahara
Senior Executive Manager, General Affairs Department

Isao Yamauchi

Corporate Auditors

Hikozaemon Enoki

Hitoshi Ikeda

Akio Enomoto

Corporate Auditor (part-time)

Hisakazu Tagawa

Financial Section

Five-Year Summary of Selected Financial Data

Years ended March 31

	Millions of yen				
	2005	2006	2007	2008	**2009**
For the year:					
Net sales	¥96,188	¥110,833	¥128,215	¥138,206	**¥144,277**
Operating income	17,335	21,716	25,091	28,718	**25,244**
Net income	7,182	11,401	12,995	14,758	**15,989**
Net cash provided by (used in) operating activities	24,572	22,243	(5,076)	5,700	**(12,091)**
Net cash provided by (used in) investing activities	(27,812)	(45,157)	(32,995)	(77,893)	**(57,397)**
Net cash provided by financing activities	7,081	32,214	20,823	85,038	**63,079**
Free cash flow	(3,240)	(22,913)	(38,072)	(72,192)	**(69,488)**
Investment	26,070	54,622	48,595	93,367	**75,638**
Depreciation and amortization	23,865	23,828	23,657	23,246	**25,762**
At year-end:					
Total assets	480,228	543,792	581,848	900,325	**936,650**
Total net assets	—	—	125,169	177,969	**183,593**
Net worth	109,009	115,696	125,091	136,395	**148,150**
Interest-bearing debt	231,784	268,942	293,069	451,849	**521,070**
Management indicators:					
Net operating income (NOI)	45,887	47,237	50,504	52,748	**64,277**
Return on equity (ROE)(%)	9.2	10.1	10.8	11.3	**11.2**
Equity ratio (%)	22.7	21.3	21.5	15.1	**15.8**
Dividend on equity (DOE)(%)	4.2	2.9	2.7	3.0	**2.8**
Dividend payout ratio (%)	42.3	29.1	25.3	26.8	**24.7**
Net debt-to-equity (D/E) ratio (times)	2.03	2.16	2.32	2.44	**2.78**
Interest coverage ratio (times)	6.5	6.9	—	1.2	**—**
	Yen				
Per share data:					
Net assets	¥33,121.39	¥35,153.14	¥38,007.98	¥41,442.57	**¥45,014.04**
Net income	2,161.70	3,440.22	3,948.64	4,484.09	**4,858.34**
Dividends	1,000	1,000	1,000	1,200	**1,200**

Notes

- The Company applies "Accounting Standards for Presentation of Net Assets on the Balance Sheet" from the fiscal year ended March 31, 2007.
- NOI is presented on a consolidated basis from the fiscal year ended March 31, 2007.
- In calculating investment for the fiscal years ended March 31, 2008 and 2009, purchases of investment securities include the amount necessary for the purchase of additional preferred equity securities of UDX Tokutei Mokuteki Kaisha.
- Per share data is calculated based on the number of issued and outstanding shares after a five-for-one stock split executed on January 1, 2007 , which raised the total number of outstanding shares to 3,291,200 shares, and has been prepared based on figures adjusted to reflect the stock split.

Calculation Methods for Indicators

- Investment = Capital expenditure + Purchases of investment securities (based on cash flow from investing activities)
- Net operating income (NOI) = Property rental income - Property rental costs + Depreciation expenses (including prepaid long-term expenses)
- Net income per share = Net income ÷ Number of shares outstanding
- Return on equity = Net income ÷ ((Shareholders' equity at the beginning of the period + Shareholders' equity at the end of the period) ÷ 2)
- Dividend payout ratio = Dividends per share (annual) ÷ Net income per share
- Dividend on equity = Dividends (annual) ÷ ((Shareholders' equity at the beginning of the period + Shareholders' equity at the end of the period) ÷ 2)
- Net D/E ratio = (Interest-bearing debt - Cash and cash equivalents - Time deposits held for 3 months or longer) ÷ Net assets
- Interest coverage ratio = Cash flow from operating activities ÷ Interest expense (based on cash flow from operating activities)
- Net worth = Net assets - Stock acquisition rights - Minority interests in consolidated subsidiaries (Net worth is total shareholders' equity up to and including the fiscal year ended March 31, 2006)

Management's Discussion and Analysis

1. Analysis of Operating Results

In fiscal 2008, the year ended March 31, 2009, the global financial crisis significantly affected the real economy in Japan. The effect was particularly pronounced in the second half of the fiscal year as the economy continued to deteriorate rapidly, including a substantial decrease in corporate earnings, reduced capital expenditures and lower consumer spending.

At this point, the recession is forecast to continue. Risks that could lead to further declines in the economy require attention, including concerns about a significant rise in unemployment due to factors such as sharp cutbacks in production among companies, and concerns that the global financial crisis will deepen and the global economy will contract further.

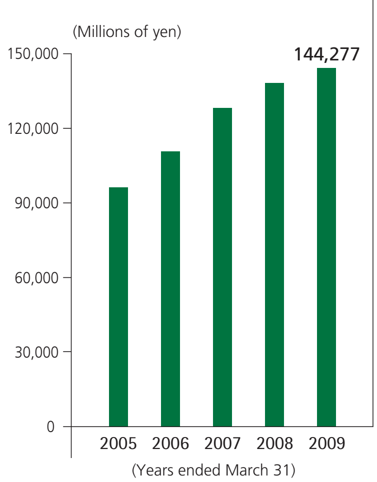
In the rental office building market, the average vacancy rate rose and average rents fell because of the recession. In the condominium market, sales slowed as consumer confidence weakened. Inventories of condominium units for sale remained high while the supply of new condominium units declined.

Publicly announced land prices as of January 1, 2009 revealed a clear downward trend in the national average in all segments, including residential and commercial land.

In this environment, the NTT Urban Development Group steadily developed its businesses with the target of achieving sustained growth, and emphasized financial soundness by carrying out an asset reshuffle.

As a result, net sales in fiscal 2008 increased ¥6,070 million from fiscal 2007, or 4.4%, to ¥144,277 million, and operating income decreased ¥3,474 million, or 12.1%, to ¥25,244 million. However, other income, net totaled ¥2,149 million, compared to other expenses, net totaling ¥3,707 million for the previous fiscal year as gain on sales of property and equipment and amortization of negative goodwill more than compensated for an increase in interest expenses and a decrease in equity in earnings of affiliates. As a result, net income increased ¥1,231 million, or 8.3%, to ¥15,989 million.

Net Sales



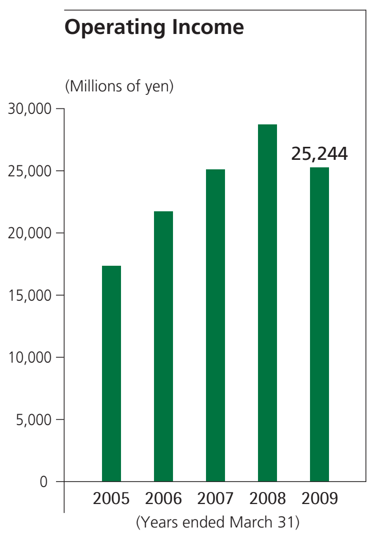
(1) Net Sales

In fiscal 2008, net sales increased ¥6,070 million, or 4.4%, to ¥144,277 million from fiscal 2007. Sales decreased in the residential property sales segment due to factors including lower condominium unit sales. However, sales in the leasing business increased due to factors including the consolidation of subsidiary UDX Tokutei Mokuteki Kaisha (Special Purpose Company), leasing revenue from newly acquired properties, and increased leasing revenue from existing properties primarily located in central Tokyo. Sales increased in the other business because of contract construction on behalf of tenants.

(2) Gross Profit

Cost of sales for fiscal 2008 increased ¥8,216 million year on year, or 8.6%, to ¥104,259 million. Primary factors included an increase in cost of sales due to the effect of the application of the Accounting Standards for Measurement of Inventories on the residential sales property business.

As a result, gross profit decreased ¥2,146 million year on year, or 5.1%, to ¥40,017 million.



(3) Operating Income

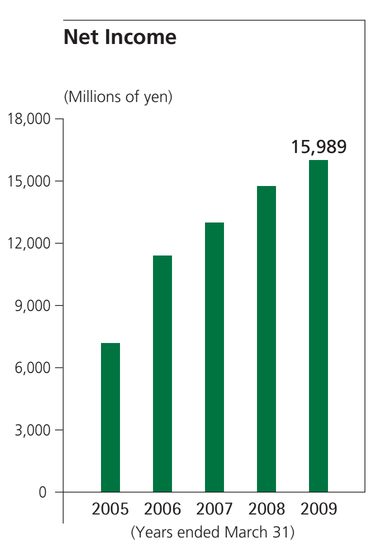
In fiscal 2008, selling, general and administrative expenses increased ¥1,328 million year on year, or 9.9%, to ¥14,773 million. Primary factors included an increase in selling expenses due to slower condominium sales in the residential property sales business.

As a result, operating income decreased ¥3,474 million year on year, or 12.1%, to ¥25,244 million.

(4) Income before Income Taxes and Minority Interests

Other income, net totaled ¥2,149 million, compared to other expenses, net totaling ¥3,707 million for the previous fiscal year. The consolidation of subsidiary UDX Tokutei Mokuteki Kaisha resulted in amortization of negative goodwill totaling ¥1,926 million, but also contributed to a decrease of ¥2,178 million year on year in equity in earnings of affiliates. Interest expense increased ¥2,744 million year on year, or 54.5%, to ¥7,780 million because of an increase in consolidated interest-bearing debt due in part to the consolidation of subsidiary UDX Tokutei Mokuteki Kaisha. Other, net totaled income of ¥8,310 million, compared to an expense of ¥929 million in the previous fiscal year. As for the main components of other, net, which is presented in Note 13 of the Notes to Consolidated Financial Statements, the NTT Urban Development Group generated a non-recurring gain on sales of property and equipment totaling ¥12,037 million, which was offset by loss on disposal of property and equipment totaling ¥1,892 million and loss on sales of property and equipment totaling ¥1,136 million.

As a result, income before income taxes and minority interests increased ¥2,382 million year on year, or 9.5%, to ¥27,393 million.

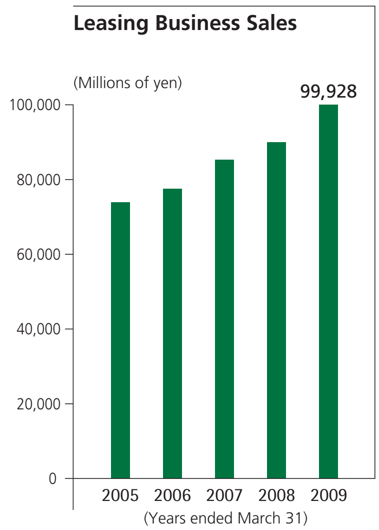


(5) Net Income

Income taxes decreased ¥496 million year on year, or 4.8%, to ¥9,755 million.

Minority interests reduced net income by ¥1,647 million. This was mainly due to the consolidation of subsidiary UDX Tokutei Mokuteki Kaisha.

As a result, net income for fiscal 2008 increased ¥1,231 million year on year, or 8.3%, to ¥15,989 million.



(6) Review by Segment

- **Leasing Business**

Fiscal 2008 sales and income increased year on year in the leasing business. Factors included the consolidation of subsidiary UDX Tokutei Mokuteki Kaisha, which owns Akihabara UDX (Chiyoda-ku, Tokyo), leasing revenue from newly acquired properties including Tradepia Yodoyabashi (Osaka-shi, Osaka), and an increase in leasing revenue from existing properties primarily located in central Tokyo, including the Urbannet Otemachi Building (Chiyoda-ku, Tokyo) and Otemachi First Square (Chiyoda-ku, Tokyo).

The average vacancy rate for the NTT Urban Development Group's portfolio of office buildings and other properties remained below the average market vacancy rate. However, the average vacancy rate in central Tokyo increased to 2.8% at the end of March 2009 from 0.5% at the end of March 2008. The average vacancy rate on the NTT Urban Development Group's overall portfolio decreased to 3.1% at the end of March 2009 from 4.2% at the end of March 2008.

Projects now in progress in new building development operations include the development of the Shijo Karasuma Building (tentative name) (Kyoto-shi, Kyoto) and the Osaka Station North District Phase 1 Development Area Project (Osaka-shi, Osaka). The Otemachi 1-chome Urban Area Redevelopment Project Type 1 (Chiyoda-ku, Tokyo) was completed on April 1, 2009.

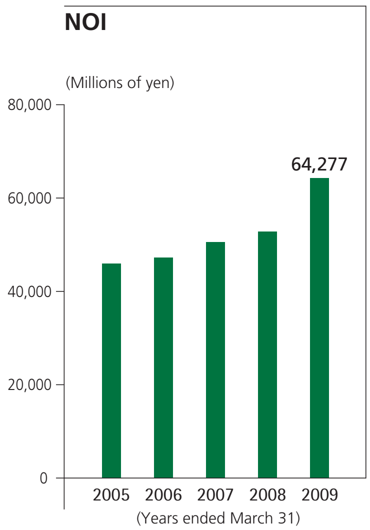
In addition, the Tokyo Metropolitan Government Bureau of Sewerage selected a group represented by the Company for the above ground portion of the Shibaura Water Reclamation Center Redevelopment project. This new development project will support future growth.

As a result, fiscal 2008 sales in the leasing business increased ¥10,011 million from fiscal 2007, or 11.1%, to ¥99,928 million, operating expenses increased ¥475 million year on year, or 0.7%, to ¥64,367 million, and operating income increased ¥9,535 million year on year, or 36.6%, to ¥35,560 million. The operating margin increased to 35.6% from 28.9% for the previous fiscal year.

NOI by Principal Building and Region

The NTT Urban Development Group uses net operating income (NOI)* as an important indicator of the value of leased buildings. Fiscal 2008 NOI increased ¥11,528 million from fiscal 2007, or 21.9%, to ¥64,277 million. NOI in central Tokyo, the other parts of Tokyo and the surrounding area increased ¥10,892 million year on year, or 36.1%, to ¥41,038 million. This increase was the result of factors such as the inclusion of the NOI of Akihabara UDX, a property owned by newly consolidated subsidiary UDX Tokutei Mokuteki Kaisha, and an increase in leasing revenue from existing buildings in central Tokyo. NOI in regional cities increased ¥636 million year on year, or 2.8%, to ¥23,238 million due to factors including growth in leasing revenue from new properties acquired in fiscal 2007 and fiscal 2008.

* NOI (net operating income) = Property rental income - Property rental costs + Depreciation expenses (including prepaid long-term expenses)



NOI on Principal Buildings

(Years ended March 31)

Building	Location	Primary Use	2008 (Millions of yen)	2009 (Millions of yen)
Urbannet Otemachi Building	Chiyoda-ku, Tokyo	Office	5,845	**6,498**
Otemachi First Square	Chiyoda-ku, Tokyo	Office	4,902	**4,994**
NTT Makuhari Building	Mihama-ku, Chiba-shi	Office	2,371	**2,349**
Granpark	Minato-ku, Tokyo	Office	4,054	**4,069**
Seavans N Building	Minato-ku, Tokyo	Office	2,933	**3,182**
Tokyo Opera City	Shinjuku-ku, Tokyo	Office	1,845	**1,862**
Urbannet Ikebukuro Building	Toshima-ku, Tokyo	Office	1,046	**1,106**
Akihabara UDX	Chiyoda-ku, Tokyo	Office	—	**7,874**
Urbannet Oroshimachi Building	Wakabayashi-ku, Sendai-shi	Office	532	**457**
Urbannet Itsutsubashi Building	Aoba-ku, Sendai-shi	Office	236	**233**
Johoku Building	Kita-ku, Nagoya-shi	Other	521	**—**
Urbannet CS Building	Naka-ku, Nagoya-shi	Office	340	**363**
Urbannet Shizuoka Building	Shizuoka-shi, Shizuoka	Office	293	**338**
Urbannet Shizuoka Otemachi Building	Shizuoka-shi, Shizuoka	Office	404	**423**
Urbannet Kaminagoya Building	Nishi-ku, Nagoya-shi	Office	108	**107**
Urbannet Fushimi Building	Naka-ku, Nagoya-shi	Office	429	**457**
Urbannet Nagoya Building	Higashi-ku, Nagoya-shi	Office	2,386	**2,464**
NTT Osaka Chuo Building	Chuo-ku, Osaka-shi	Office	411	**410**
Urban Ace Kitahama Building	Chuo-ku, Osaka-shi	Office	399	**427**
Urban Ace Higobashi Building	Nishi-ku, Osaka-shi	Office	329	**334**
Urban Ace Sannomiya Building	Chuo-ku, Kobe-shi	Office	461	**436**
Urban Ace Awaza Building	Nishi-ku, Osaka-shi	Office	412	**376**
Urbannet Honmachi Building	Chuo-ku, Osaka-shi	Office	379	**376**
Tradepia Yodoyabashi	Chuo-ku, Osaka-shi	Office	—	**327**
NTT Cred Motomachi Building	Naka-ku, Hiroshima-shi	Commercial	3,732	**3,785**
NTT Cred Hakushima Building	Naka-ku, Hiroshima-shi	Office	786	**806**
NTT Cred Okayama Building	Kita-ku, Okayama-shi	Office	564	**467**
NTT-T Building	Chuo-ku, Fukuoka-shi	Commercial	2,160	**2,220**
NTT-KF Building	Chuo-ku, Fukuoka-shi	Office	326	**324**
Urbannet Hakata Building	Hakata-ku, Fukuoka-shi	Office	273	**295**
Emuzu Odori Building	Chuo-ku, Sapporo-shi	Office	396	**415**
Emuzu Minami 22-jo Building	Chuo-ku, Sapporo-shi	Office	122	**119**
Urbannet Sapporo Building	Chuo-ku, Sapporo-shi	Office	767	**771**
Other properties, subtotal			12,971	**15,595**
Total			52,748	**64,277**

NOI by Region and Type of Property

(Years ended March 31)

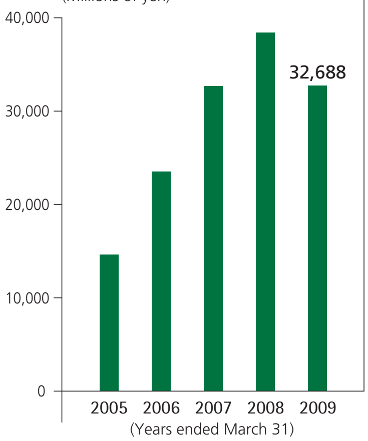
Region	2008 Total (Millions of yen)	2008 Office, Commercial	2008 Residential, Other	**2009 Total (Millions of yen)**	**2009 Office, Commercial**	**2009 Residential, Other**
Central Tokyo	30,146	23,353	927	**41,038**	**32,983**	**2,002**
Other parts of Tokyo and the surrounding area		5,865			**6,052**	
Regional cities	22,601	18,450	4,151	**23,238**	**19,173**	**4,065**
Total	52,748	47,669	5,078	**64,277**	**58,209**	**6,068**

Note: The above-stated regions are defined as:

- Central Tokyo: Chiyoda-ku, Chuo-ku, Minato-ku, Shibuya-ku and Shinjuku-ku
- Other parts of Tokyo and the surrounding area: Parts of Tokyo other than the five wards mentioned above, as well as Kanagawa, Chiba, Saitama, Ibaraki, Gunma and Tochigi prefectures
- Regional cities: Locations other than those indicated above

Residential Property Sales Business Sales

(Millions of yen)



• Residential Property Sales Business

In the residential property sales business, the NTT Urban Development Group focuses on the condominium business with the aim of creating high-quality residences that maintain their asset value and enhance the lives of residents. The Company also worked to build its brands in ways such as developing a new logo for the WELLITH brand.

The NTT Urban Development Group delivered a total of 563 condominiums in fiscal 2008, primarily at properties including Wellith City Omori Tower (Ota-ku, Tokyo), Wellith Komagome Residence (Toshima-ku, Tokyo), Wellith Minami Funabashi (Funabashi-shi, Chiba), Wellith Park Chayagasaka (Nagoya-shi, Aichi), and Wellith Takatsuki Park Square (Takatsuki-shi, Osaka). During fiscal 2008, sales began at properties including Wellith Takanawa (Minato-ku, Tokyo), Maison Glanz-Wellith Andou (Shizuoka-shi, Shizuoka), and Wellith Yao Honmachi (Yao-shi, Osaka). The NTT Urban Development Group also sold detached houses at The Seasons Takatsuki (Takatsuki-shi, Osaka) development, and building lots at the Wellith Park Shingu Morinomiya (Kasuya-gun, Fukuoka) development.

However, segment sales declined because of slower sales in a weak condominium market. In addition, the effect of application of the Accounting Standards for Measurement of Inventories in this segment was ¥7,932 million.

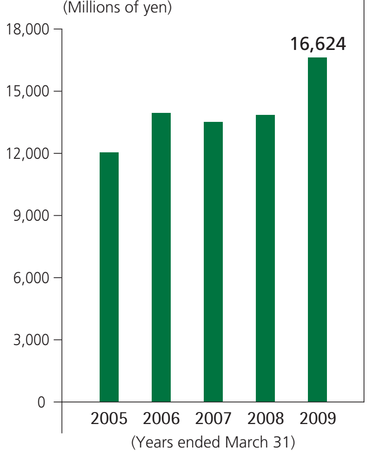
As a result, fiscal 2008 sales in the residential property sales segment decreased ¥5,726 million from fiscal 2007, or 14.9%, to ¥32,688 million, operating expenses increased ¥6,884 million year on year, or 21.6%, to ¥38,706 million, and operating loss was ¥6,018 million, compared to operating income of ¥6,593 million for fiscal 2007.

(Years ended March 31)

Classification		2008 Units	2008 Sales (Millions of yen)	**2009 Units**	**2009 Sales (Millions of yen)**
Condominiums					
Units delivered	Tokyo region	212	12,299	**342**	**14,731**
	Other regions	413	18,020	**221**	**10,114**
Completed in inventory		146	—	**335**	**—**
Building Lots					
Units delivered	Tokyo region	164	3,474	**—**	**550**
	Other regions	164	3,331	**387**	**7,291**
Completed in inventory		2	—	**91**	**—**
Condominiums/ Building Lots (Total)					
Units delivered	Tokyo region	376	15,773	**342**	**15,281**
	Other regions	577	21,351	**608**	**17,406**
Completed in inventory		148	—	**426**	**—**
Other					
Units delivered	Tokyo region	—	—	**—**	**—**
	Other regions	1	1,289	**—**	**—**
Completed in inventory		—	—	**—**	**—**
Total (Sales)		—	38,415	**—**	**32,688**

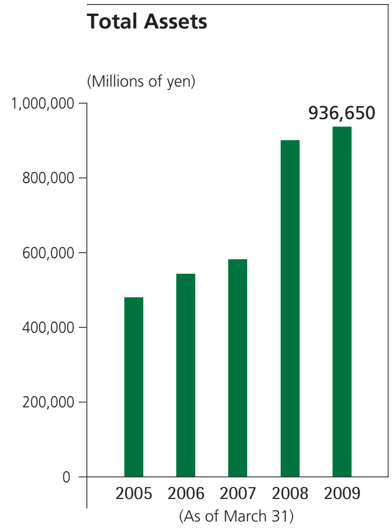
Other Business Sales

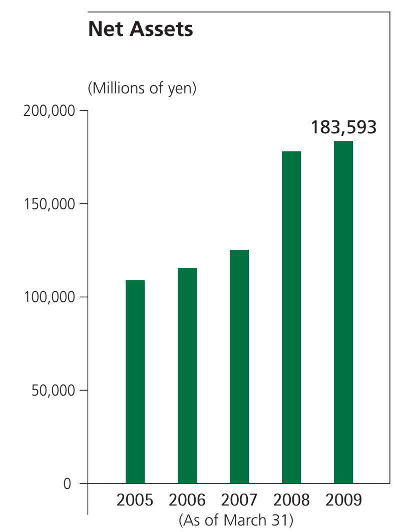
(Millions of yen)



• Other Business

Fiscal 2008 sales in the other business increased ¥2,778 million from fiscal 2007, or 20.1%, to ¥16,624 million, operating expenses increased ¥2,251 million year on year, or 17.5%, to ¥15,123 million, and operating income increased ¥527 million year on year, or 54.0%, to ¥1,500 million.





2. Analysis of Financial Position

(1) Consolidated Balance Sheets Highlights

・ Assets

Total assets as of March 31, 2009 increased ¥36,325 million from the previous fiscal year-end to ¥936,650 million.

Current assets decreased ¥1,589 million to ¥148,447 million.

Fixed assets, the total of property and equipment and investments and other assets, increased ¥37,914 million to ¥788,202 million. Principal factors included an increase of ¥35,756 million in property and equipment that was largely the result of a ¥45,437 million increase in land due to active investment, including the acquisition of Tradepia Yodoyabashi and land in Uchikanda, Chiyoda-ku, Tokyo.

・ Liabilities

Total liabilities as of March 31, 2009 increased ¥30,700 million from the previous fiscal year-end to ¥753,056 million.

Current liabilities increased ¥10,634 million to ¥116,772 million. Major factors included an increase of ¥25,798 million in short-term debt, which was more than offset by a decrease of ¥19,086 million in notes and accounts payable, trade, a decrease of ¥6,827 million in accrued income taxes, and a decrease of ¥9,713 million in the current portion of long-term debt.

Long-term liabilities increased ¥41,335 million to ¥636,284 million. The main factors included an increase of ¥53,141 million in long-term debt. As of March 31, 2009, interest-bearing debt totaled ¥521,070 million, an increase of ¥69,221 million from the end of the previous fiscal year.

・ Net Assets

Net assets as of March 31, 2009 increased ¥5,624 million from the previous fiscal year-end to ¥183,593 million. Primary factors included an increase of ¥11,711 million in retained earnings after deducting dividend payments of ¥4,278 million from net income of ¥15,989 million. However, minority interests in consolidated subsidiaries decreased ¥6,129 million from a year earlier due to factors including the purchase of additional preferred equity securities of UDX Tokutei Mokuteki Kaisha.

(2) Cash Flows

Cash and cash equivalents ("cash") as of March 31, 2009 decreased ¥6,409 million from the previous fiscal year-end to ¥8,691 million. The NTT Urban Development Group did not generate free cash flow,* as the sum of net cash used in operating activities and net cash used in investing activities totaled negative ¥69,488 million, compared to negative ¥72,192 million for the previous fiscal year.

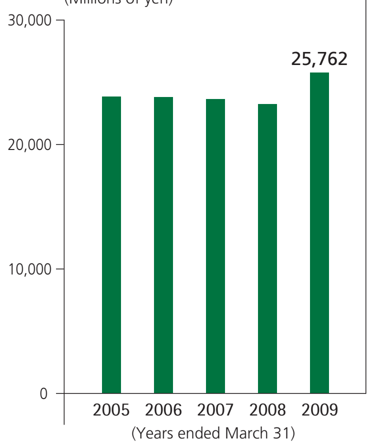
* Free cash flow = Cash flows from operating activities + Cash flows from investing activities

(Net Cash Used in Operating Activities)

Net cash used in operating activities in fiscal 2008 totaled ¥12,091 million. In the previous fiscal year, net cash provided by operating activities totaled ¥5,700 million. Income before

Depreciation and Amortization

(Millions of yen)



income taxes and minority interests provided cash totaling ¥27,393 million. Depreciation and amortization totaled ¥25,762 million. Uses of cash included an increase of ¥12,822 million in inventories, a decrease in notes and accounts payable, trade of ¥19,086 million, income taxes paid of ¥13,363 million, and a decrease in deposits from tenants of ¥8,586 million. Gain on sales of property and equipment of ¥12,037 million as a result of an asset reshuffle was deducted from cash flows from operating activities.

(Net Cash Used in Investing Activities)

Net cash used in investing activities decreased ¥20,495 million to ¥57,397 million. Sources of cash included proceeds from sales of property and equipment totaling ¥19,629 million as a result of an asset reshuffle emphasizing financial soundness. Uses of cash included ¥66,225 million for purchases of property and equipment to support future growth through the acquisition of assets such as land for development and income-producing properties.

(Net Cash Provided by Financing Activities)

Net cash provided by financing activities decreased ¥21,959 million year on year to ¥63,079 million. Uses of cash included repayments of long-term borrowings of ¥45,190 million, payments of redemption of bonds of ¥11,611 million, and cash dividends paid of ¥4,278 million. Additions to cash to fund working capital requirements and investments included proceeds from long-term borrowings of ¥76,500 million and a net increase in short-term borrowings of ¥25,798 million. Moreover, the NTT Urban Development Group funded redemption of bonds, repayments of borrowings, and investments with proceeds from issuance of bonds totaling ¥23,664 million.

(3) Capital Policy and Dividend Policy

- **Capital Policy**

In fiscal 2008, the NTT Urban Development Group procured capital by borrowing from financial institutions, issuing bonds, reshuffling assets and other methods to fund capital investment, equity participation, purchase of inventories and other financial activities.

In accordance with its capital policy, NTT Urban Development Group has acquired the ratings shown in the table below for its commercial paper (short-term debt) and corporate bonds (long-term debt) from Moody's Investors Service, Inc. and Rating and Investment Information, Inc. to support continued flexibility in procuring funds for future capital investment, purchase of inventories, and other activities. NTT Urban Development Group will work to maintain its current ratings.

(As of June 30, 2009)

	Moody's Investors Service, Inc.	Rating and Investment Information, Inc.
Commercial paper	P—1	a—1+
Corporate bonds	Aa3	AA—

・ **Dividend Policy**

NTT Urban Development's basic policy on the distribution of profits is to maintain adequate internal reserves to contribute to ongoing growth in corporate value and to strengthen its ability to provide stable and long-term shareholder returns by taking a long-term perspective on its business operations in the real estate industry.

Internal reserves are primarily used to invest in quality properties for future development, with the objective of further raising corporate value. Based on this policy, the Company paid cash dividends totaling ¥1,200 per share for the year ended March 31, 2009.

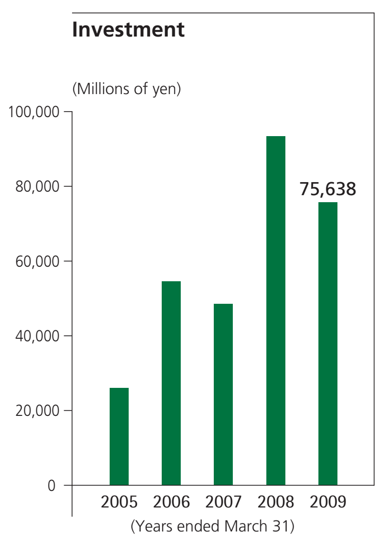
The Company plans to pay dividends twice a year, a year-end dividend and an interim dividend, which are determined by the General Ordinary Meeting of Shareholders and the Board of Directors, respectively.

The Company's articles of incorporation provide that the Board of Directors may resolve to pay an interim dividend with September 30 as the reference date.

3. Investment

The NTT Urban Development Group, comprising NTT Urban Development Corporation and its consolidated subsidiaries, focuses on expanding the revenue contributed by the leasing business by investing in the construction of new buildings, and also acquires business-use land to support business expansion.

Consolidated capital investment was as follows in fiscal 2008.



(Year ended March 31)

Business Segment	2009 (Millions of yen)
Leasing	63,380
Residential property sales	0
Other	169
Subtotal	63,550
Group	1,451
Total	65,002

Capital investment in the leasing business consisted primarily of ¥19,215 million to acquire land, buildings and other assets associated with Tradepia Yodobashi, ¥16,004 million to acquire land in Uchikanda, Chiyoda-ku, Tokyo, and ¥8,385 million for the first phase of development of the Otemachi 1-Chome Urban Area Redevelopment Project Type 1.

Other investments included ¥8,784 million to acquire additional preferred equity securities in UDX Tokutei Mokuteki Kaisha, which raised total capital investment for fiscal 2008 to ¥75,638 million.

4. Significant Management Contracts

None.

5. Operating Risks

Business and other risks affecting the NTT Urban Development Group's businesses that may have a material impact on investment decisions include, but are not limited to, the following. The Group provides this risk information to investors because it is material to investment decisions and understanding the Group's business activities. The Group manages operating risks according to its risk management regulations. The forward-looking statements included in the following reflect judgments by the Group as of the date of publication.

NTT Urban Development Group Risk

1) General Risk

1. Leasing Business Risk

In fiscal 2008, the leasing business accounted for 67% of consolidated net sales. The leasing business tends to be susceptible to changes in the operating environment, and a worsening supply-demand situation in the real estate market could substantially affect the operating performance of the NTT Urban Development Group by causing vacancy rates to increase and the leasing rate to decline. The Group therefore projects trends over the medium-to-long term in considering measures to counter decreases in rents and increases in the vacancy rate. Moreover, changes in the financial status of the Group's major tenants, the departure of a major tenant, or changes in the conditions of property use could affect the overall occupancy rate of Group properties and consequently could significantly affect revenues from real estate leased to businesses.

2. Residential Property Sales Business Risk

Deterioration of the condominium market because of intensifying competition among sellers, rising interest rates for housing loans, or a downturn in consumer sentiment caused by higher selling prices due to an increase land prices could affect the Group's business performance in ways such as causing revenues to fall due to slower sales or inventories to increase.

3. Asset Devaluation Risk

In fiscal 2005, the Company adopted impairment loss accounting for business-use real estate based on the "Opinion Regarding Accounting Standard for Impairment of Fixed Assets" issued by the Corporate Accounting Standards Committee on August 9, 2002. In fiscal 2008, the Company applied the "Accounting Standards for Measurement of Inventories" issued by the Accounting Standards Board of Japan on July 5, 2006. A substantial deterioration of the real estate market could require the Group to recognize impairment losses on properties in the leasing business and devaluation of inventory assets associated with the residential property sales business, which could impact the Group's business performance.

In addition, the Group's assets include investment securities. Reduction in the value of these assets due to changes in economic conditions could cause a devaluation loss that might impact the Group's business performance.

4. Effects of Interest-Bearing Debt

As of March 31, 2009, consolidated interest-bearing debt totaled ¥521,070 million, the majority of which was procured at fixed interest rates. A significant rise in market interest rates could, therefore, affect the Group's business operations.

In addition, instability in capital markets, credit limits imposed by financial institutions, the failure of financial institutions (including guarantee payments), or downgrades in the Company's debt ratings could adversely affect the Group's ability to procure capital.

(Years ended/As of March 31)

	2008	2009
Total assets (Millions of yen)	900,325	**936,650**
Interest-bearing debt (Millions of yen)	451,849	**521,070**
Interest-bearing debt / Total assets (%)	50.2	**55.6**
Net sales (Millions of yen)	138,206	**144,277**
Interest expense (Millions of yen)	5,036	**7,780**
Interest expense / Net sales (%)	3.6	**5.4**

5. Risks in Cash Flows from Operating Activities

The inventories of the Group have been increasing because of purchases of land to support expansion in the residential property sales business. Cash provided by operating activities tends to be susceptible to fluctuation due to land acquisition activities.

In fiscal 2008, net cash used in operating activities was ¥12,091 million, compared to net cash provided by operating activities of ¥5,700 million for the previous fiscal year. Principal factors providing cash included income before income taxes and minority interests of ¥27,393 million, and depreciation and amortization totaled ¥25,762 million. Principal uses of cash included a ¥12,822 million increase in inventories, a ¥19,086 million decrease in notes and accounts payable, trade, income taxes paid of ¥13,363 million, and a ¥8,586 million decrease in deposits from tenants. Gain on sales of property and equipment of ¥12,037 million as a result of an asset reshuffle was deducted from cash flows from operating activities. An increase in inventory assets and other factors create the potential for operating activities to use cash instead of provide it.

6. Risks Concerning Establishment of and Revisions to Real Estate-Related and Other Laws and Regulations

The Group is subject to laws and regulations related to real estate, and revisions to these laws and the establishment of new laws could impact the Group's business performance.

7. Risks Concerning Business Partner Credit

The Company makes every effort to verify the creditworthiness of its business partners before doing business with them. However, unforeseen events may lower a business partner's creditworthiness and cause economic losses by making debts owed to the Group uncollectible, which could impact the Group's business performance.

Moreover, misconduct, financial difficulties and other problems that may interfere with the execution of work by contractors selected for construction and other projects could cause economic losses for the Group or erode the Group's credibility, which in turn could affect the Group's performance. The Group works to preclude and avoid these risks by using an internal committee established to select contractors after investigating their creditworthiness and ability to complete construction, and has established criteria for terminating contractors due to issues including failure to meet quality and delivery standards, misconduct or accidents.

2) Business Risk

1. Risks Concerning Development Project Investment Decisions

The Group invests in quality properties for future development with the objective of further raising corporate value. Every effort is made to ensure that decisions to invest in new development projects do not produce an economic loss or compromise society's trust in the Group. Relevant laws, rights, site conditions, market studies, and other subjects are thoroughly researched and verified. Construction plans and business revenue and expenditure plans are drawn up, and internal meetings are held to determine business viability. The final decisions to invest are made by the Board of Directors and other senior management organizations. Despite careful preparation and consideration, fluctuations in demand arising from changes in the operating environment or in the real estate market can reduce the profitability of investments and could impact the Group's business performance.

2. Risks Concerning Sales Transaction and Construction Contracts

Inadequate contract documents, flawed contract stipulations, or other deficiencies in sales transaction contracts and construction contracts could produce an economic loss, or liability for damage, or loss of credibility that could impact the Group's business performance. The Group seeks to preclude and avoid such risk by using means such as detailed contract check sheets.

3. Risks Concerning Damage to and Deterioration of Buildings in Building Management Operations

The Group regularly inspects and maintains the buildings in its leasing portfolio. However, damage to or deterioration in the buildings, or accidents resulting from the deterioration or failures of the buildings could impact the Group's business performance by increasing the financial burden associated with complaints about damage to or the deterioration of the buildings and accidents caused by them, liability for damage, the erosion of society's trust in the Group, renovations, and rebuilding.

4. Risks Concerning the Handling of Large-Scale Disasters in Building Management Operations

Major earthquakes, floods or other natural disasters, or fires, accidents, or terrorist attacks could cause damage to, the loss of, or the deterioration of buildings in the Group's leasing portfolio, which in turn could affect the Group's business performance. The Group has developed a business continuity plan (BCP) designed to protect against the spread of damage from possible large-scale disasters such as the above and to minimize any economic loss from them, identifying types of disasters and considering the effects of the disasters on tenants and the management of buildings, emergency communication systems, and emergency action in accordance with each type of disaster.

Relationship between NTT and its Group Affiliates

1) Corporate Positioning in the Business Group Centered on NTT (NTT Group)

NTT Urban Development functions as the sole comprehensive real estate company in the NTT Group while conducting its business operations independently from the NTT Group and maintaining full management responsibility. Although important issues are discussed with or reported to the parent company, NTT, the Company is not restricted or constrained in terms of independent decision making.

As of March 31, 2009, NTT held 67.3% of NTT Urban Development Corporation shares, giving NTT the voting rights of a majority shareholder as stipulated in the Corporation Law.

2) Business Connection with the NTT Group

With mutual respect in terms of independence and autonomy, NTT Urban Development and NTT entered into a contract with regard to NTT Group management and operations for the purpose of maximizing the profits of all NTT Group companies through the maximization of the NTT Group's profit. Based on this contract, the Company submits payments for Group management and operation costs. In addition, the contract provides a wide range of benefits, including consultation, permission to use the "NTT" brand, and access to Group-wide services for public relations. The use of the NTT brand name is particularly beneficial in terms of raising the Company's credibility and trustworthiness.

The Company has also entered into building leasing agreements with NTT Group companies from which the Company receives leasing revenues. Leasing rates are determined based on the same terms and conditions as leasing agreements for general tenants and decided by mutual deliberation and with reference to neighboring property rates and market prices. The Company acquires land from the NTT Group for use mainly by the residential property sales business. Acquisition prices consistent with general market transactions are decided through mutual deliberation with due regard for issues such as profitability.

Revenues from business transactions with the NTT Group in the leasing business (non-consolidated) are as follows:

Leasing Business (Non-Consolidated)
Transactions with the NTT Group

(Years ended March 31)

	2008	2009
Revenues in the leasing business (Millions of yen)	89,380	**91,744**
Revenues from the NTT Group (Millions of yen)	25,144	**30,186**
Revenues from the NTT Group / Leasing business (%)	28.1	**32.9**

3) Relationships with Personnel of the NTT Group

Employees from the NTT Group are treated as permanently transferred workers, not as temporarily transferred workers. The Company has appointed an executive from NTT as an outside director and another as an outside auditor. The Company requested these appointments and conducts its management decisions independent of the NTT Group.

4) Preservation of the Company's Independent Status from the NTT Group

The Company conducts real estate business throughout Japan as a member of the NTT Group while conducting its business operations independently from the NTT Group and maintaining full management responsibility. The conditions described in sections 1 to 3 above are intended to preserve the Company's independence from the parent company.

6. Basic Policy on the Control of the Company

The parent company holds more than 50% of the shareholder voting rights. Therefore, the Company has not established a detailed basic policy on control of the Company and, at present, does not maintain takeover defense measures.

Consolidated Balance Sheets

As of March 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
ASSETS			
Current assets:			
Cash and cash equivalents (Note 7)	¥ 15,101	¥ 8,691	$ 88,485
Time deposits and short-term investments	2,223	2,223	22,631
Notes and accounts receivable, trade	6,009	5,167	52,606
Less allowance for doubtful receivables	(0)	(1)	(13)
Inventories (Notes 4 and 7)	122,660	127,830	1,301,343
Leased investment assets (Note 8)	—	488	4,969
Deferred tax assets (Note 14)	1,172	1,411	14,372
Other current assets (Note 7)	2,870	2,635	26,835
Total current assets	150,037	148,447	1,511,228
Property and equipment (Notes 7 and 12)**:**			
Buildings and structures	690,561	682,795	6,950,989
Machinery and vehicles	13,798	13,731	139,785
Tools, furniture and fixtures	13,702	13,602	138,475
Land (Note 4)	333,183	378,620	3,854,430
Leased assets (Note 8)	870	838	8,537
Construction in progress (Note 4)	246	9,359	95,277
Subtotal	1,052,363	1,098,947	11,187,493
Less accumulated depreciation	(342,992)	(353,820)	(3,601,959)
Property and equipment, net	709,370	745,127	7,585,534
Investments and other assets:			
Investment securities (Note 5)	14,637	16,391	166,865
Long-term prepaid expenses (Note 7)	19,630	18,920	192,613
Intangible assets (Note 7)	1,817	3,338	33,982
Deferred tax assets (Note 14)	97	50	514
Other assets	4,739	4,379	44,581
Less allowance for doubtful receivables	(5)	(3)	(36)
Total investments and other assets	40,917	43,075	438,519
Total assets	¥ 900,325	¥ 936,650	$ 9,535,281

The accompanying notes are an integral part of the financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current liabilities:			
Short-term debt (Note 6)	¥ 10,000	¥ 35,793	$ 364,381
Current portion of finance lease obligations (Note 8)	195	179	1,824
Current portion of long-term debt (Notes 6 and 7)	56,802	47,089	479,376
Notes and accounts payable, trade	28,139	9,052	92,158
Accrued income taxes (Note 14)	7,439	611	6,225
Other current liabilities (Note 2)	24,830	24,046	244,800
Total current liabilities	127,406	116,772	1,188,764
Long-term liabilities:			
Long-term debt (Notes 6 and 7)	385,046	438,188	4,460,842
Finance lease obligations (Note 8)	364	257	2,624
Deferred tax liabilities (Note 14)	56,973	60,403	614,924
Accrued employees' retirement benefits (Note 9)	4,984	5,255	53,503
Accrued directors' and corporate auditors' retirement benefits	45	67	686
Deposits from tenants	108,792	97,857	996,207
Negative goodwill (Note 2)	38,530	34,032	346,462
Other long-term liabilities (Note 2)	212	220	2,249
Total long-term liabilities	594,949	636,284	6,477,497
Total liabilities	722,356	753,056	7,666,261
NET ASSETS			
Shareholders' equity (Notes 10 and 20)**:**			
Common stock:			
Authorized — 10,500,000 shares			
Issued — 3,291,200 shares	48,760	48,760	496,386
Capital surplus	34,109	34,109	347,244
Retained earnings	53,392	65,103	662,767
Total shareholders' equity	136,262	147,973	1,506,397
Accumulated gains from revaluation and translation adjustments:			
Unrealized gains on available-for-sale securities, net of taxes	133	176	1,800
Total accumulated gains from revaluation and translation adjustments	133	176	1,800
Minority interests in consolidated subsidiaries	41,573	35,443	360,823
Total net assets	177,969	183,593	1,869,020
Total liabilities and net assets	¥900,325	¥936,650	$9,535,281

Consolidated Statements of Income

For the years ended March 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
Net sales	¥138,206	¥144,277	$1,468,768
Cost of sales (Note 2)	96,042	104,259	1,061,379
Gross profit	42,163	40,017	407,389
Selling, general and administrative expenses (Note 11)	13,445	14,773	150,397
Operating income	28,718	25,244	256,992
Other income (expenses):			
Interest income	13	83	849
Interest expense	(5,036)	(7,780)	(79,209)
Amortization of negative goodwill	—	1,926	19,612
Equity in earnings of affiliates	2,245	66	679
Impairment loss (Notes 12 and 18)	—	(457)	(4,654)
Other, net (Note 13)	(929)	8,310	84,606
	(3,707)	2,149	21,883
Income before income taxes and minority interests	25,010	27,393	278,875
Income taxes (Note 14):			
Current	11,600	6,547	66,652
Deferred	(1,348)	3,208	32,661
Total income taxes	10,252	9,755	99,313
Minority interests	0	1,648	16,783
Net income (Note 15)	¥ 14,758	¥ 15,989	$ 162,779

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
Changes in shareholders' equity			
Common stock:			
Balance at the beginning of the year	¥ 48,760	¥ 48,760	$ 496,386
Balance at the end of the year	¥ 48,760	¥ 48,760	$ 496,386
Capital surplus:			
Balance at the beginning of the year	¥ 34,109	¥ 34,109	$ 347,244
Balance at the end of the year	¥ 34,109	¥ 34,109	$ 347,244
Retained earnings:			
Balance at the beginning of the year	¥ 41,925	¥ 53,392	$ 543,545
Net income	14,758	15,989	162,779
Cash dividends paid	(3,291)	(4,278)	(43,557)
Balance at the end of the year	¥ 53,392	¥ 65,103	$ 662,767
Total shareholders' equity	¥136,262	¥147,973	$1,506,397
Changes in revaluation and translation adjustments			
Unrealized gains on available-for-sale securities, net of taxes:			
Balance at the beginning of the year	¥ 296	¥ 133	$ 1,360
Net change during the year	(162)	43	440
Balance at the end of the year	¥ 133	¥ 176	$ 1,800
Minority interests in consolidated subsidiaries:			
Balance at the beginning of the year	¥ 77	¥ 41,573	$ 423,225
Change in minority interests due to increase in consolidated subsidiaries	41,494	229	2,331
Change in minority interests due to additional acquisitions of preferred equity securities	—	(6,213)	(63,252)
Other change during the year, net	1	(145)	(1,481)
Balance at the end of the year	¥ 41,573	¥ 35,443	$ 360,823
Total net assets	¥177,969	¥183,593	$1,869,020

The accompanying notes are an integral part of the financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2009	2009
Operating activities:			
Income before income taxes and minority interests	¥ 25,010	¥ 27,393	$ 278,875
Adjustment for:			
Depreciation and amortization	23,246	25,762	262,265
Amortization of negative goodwill	—	(1,926)	(19,612)
Impairment loss	—	457	4,654
Decrease in allowance for doubtful receivables	(2)	(0)	(5)
(Decrease) increase in accrued employees' retirement benefits	(246)	271	2,761
Interest and dividend income	(44)	(129)	(1,321)
Interest expense	5,036	7,780	79,209
Equity in earnings of affiliates	(2,245)	(66)	(679)
Gain on sales of property and equipment	(79)	(12,037)	(122,543)
Loss on disposal of property and equipment	1,724	1,892	19,263
Loss on sales of property and equipment	5	1,136	11,573
Increase in leased investment assets	—	(488)	(4,969)
Effect of change in finance lease accounting	171	—	—
Decrease in notes and accounts receivable, trade	262	842	8,574
Increase in inventories	(39,933)	(12,822)	(130,534)
Increase (decrease) in notes and accounts payable, trade	6,425	(19,086)	(194,305)
Decrease in deposits from tenants	(483)	(8,586)	(87,416)
Other	(2,118)	(1,526)	(15,548)
Subtotal	16,729	8,864	90,242
Interest and dividends received	2,172	166	1,692
Interest paid	(4,942)	(7,758)	(78,987)
Income taxes paid	(8,257)	(13,363)	(136,038)
Net cash (used in) provided by operating activities	5,700	(12,091)	(123,091)
Investing activities:			
Purchases of property and equipment	(74,892)	(66,225)	(674,192)
Proceeds from sales of property and equipment	5,753	19,629	199,828
Purchases of investment securities	(214)	(952)	(9,698)
Proceeds from refund of investment securities	2,372	—	—
Purchase of additional interests in an affiliated company which then became a consolidated subsidiary by this acquisition (Note 2)	(10,810)	—	—
Additional acquisition of preferred equity securities	—	(8,784)	(89,423)
Other	(101)	(1,064)	(10,835)
Net cash used in investing activities	(77,893)	(57,397)	(584,320)
Financing activities:			
Net (decrease) increase in short-term borrowings	(7,842)	25,798	262,638
Net increase (decrease) in commercial paper	10,000	(5)	(58)
Proceeds from long-term borrowings	125,000	76,500	778,784
Repayments of long-term borrowings	(26,261)	(45,190)	(460,050)
Proceeds from issuance of bonds	—	23,664	240,907
Payments of redemption of bonds	(12,300)	(11,611)	(118,210)
Repayments of long-term accounts payable	(60)	(21)	(217)
Cash dividends paid	(3,290)	(4,278)	(43,557)
Cash dividends paid to minority shareholders	—	(1,794)	(18,265)
Other	(206)	18	189
Net cash provided by financing activities	85,038	63,079	642,161
Net increase (decrease) in cash and cash equivalents	12,846	(6,409)	(65,250)
Cash and cash equivalents at the beginning of the year	2,255	15,101	153,735
Cash and cash equivalents at the end of the year	¥ 15,101	¥ 8,691	$ 88,485

The accompanying notes are an integral part of the financial statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of NTT Urban Development Corporation (the "Company") and its consolidated subsidiaries are prepared on the basis of generally accepted accounting principles in Japan, which differ in certain respects from the application and disclosure requirements of the International Financial Reporting Standards, and are compiled from consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The information disclosed in the accompanying consolidated financial statements is translated from the original Japanese text and the scope and nature of the information is limited to that disclosed therein. However, certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in Japanese yen and U.S. dollars) do not necessarily agree with the sum of the individual accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all companies controlled directly or indirectly by the Company. All significant inter-company balances and transactions have been eliminated upon consolidation. Upon acquisition of a subsidiary, all assets and liabilities are revalued to their respective fair value at the date of acquisition including the portion charged to minority interest.

Consolidated subsidiaries as of March 31, 2008 and 2009 are as follows:

2008	2009
NTT Urban Development Hokkaido BS Co.	**NTT Urban Development Hokkaido BS Co.**
Otemachi First Square Inc.	**Otemachi First Square Inc.**
Motomachi Parking Access Co., Ltd.	**Motomachi Parking Access Co., Ltd.**
Knox Twenty-One Co., Ltd.	**Knox Twenty-One Co., Ltd.**
DN Food Co., Ltd.	**DN Food Co., Ltd.**
NTT Urban Development Builservice Co.	**NTT Urban Development Builservice Co.**
NTT Urban Development West BS Co.	**NTT Urban Development West BS Co.**
NU-3 Tokumei Kumiai	**—**
NU-4 Tokumei Kumiai	**NU-4 Tokumei Kumiai**
UD Fund II Tokutei Mokuteki Kaisha	**UD Fund II Tokutei Mokuteki Kaisha**
UDX Tokutei Mokuteki Kaisha	**UDX Tokutei Mokuteki Kaisha**
—	**UD Fund III Tokutei Mokuteki Kaisha**
—	**Nagasaki Shintomachi New Town Development Tokutei Mokuteki Kaisha**

The Company's acquisition of preferred equity securities resulted in UD Fund II Tokutei Mokuteki Kaisha becoming consolidated effective year ended March 31, 2008, and UDX Tokutei Mokuteki Kaisha has being excluded from equity method affiliates and being included in consolidation effective March 31, 2008. Similarly, UD Fund III Tokutei Mokuteki Kaisha and Nagasaki Shintomachi New Town Development Tokutei Mokuteki Kaisha became included in consolidated subsidiaries effective year ended March 31, 2009.

Notes to Consolidated Financial Statements

The following details of assets and liabilities of UDX Tokutei Mokuteki Kaisha at the beginning of consolidation, and a reconciliation of acquisition costs for preferred equity securities of UDX Tokutei Mokuteki Kaisha, with net amounts paid for by the Company:

	Millions of yen
Current assets	¥ 8,066
Fixed assets	234,900
Current liabilities	(2,719)
Long-term liabilities	(136,510)
Negative goodwill	(38,530)
Minority interests	(41,494)
Acquisition cost of preferred equity securities	¥ 23,712
Investments made before the current year	(7,272)
Additional investments made in the current year	¥ 16,440
Cash and cash equivalent of UDX Tokutei Mokuteki Kaisha	(5,629)
Net: Amount paid for acquisition of majority interests in UDX Tokutei Mokuteki Kaisha	¥ 10,810

NU-3 Tokumei Kumiai is excluded from the consolidation effective March 31, 2009 via repayment of the Company's investments in the subsidiary.

The companies over which the Company exercises significant influence in terms of operating and financial policies are included in the consolidated financial statements on an equity basis.

The affiliated companies accounted for by the equity method as of March 31, 2008 and 2009 are as follows:

2008	2009
Tokyo Opera City Building Co., Ltd.	**Tokyo Opera City Building Co., Ltd.**
DHC Tokyo Co., Ltd.	**DHC Tokyo Co., Ltd.**
Tokyo Opera City Heat Supply Co., Ltd.	**Tokyo Opera City Heat Supply Co., Ltd.**
Crossfield Management Corporation	**Crossfield Management Corporation**
Harumi Yontyome City Planning Design Co.	**Harumi Yontyome City Planning Design Co.**

The balance sheet date of UD Fund II Tokutei Mokuteki Kaisha is December 31. Financial statements for UD Fund II Tokutei Mokuteki Kaisha's fiscal period were used to prepare the consolidated financial statements, and significant transactions occurring within the Company's consolidated balance sheet date are taken into account for consolidation purposes. The balance sheet dates of NU-4 Tokumei Kumiai and UD Fund III Tokutei Mokuteki Kaisha are January 31 and September 30, respectively. Adjusted financial statements of these two consolidated subsidiaries as of the Company's consolidated balance sheet date were used in the preparation of consolidated financial statements. Aside from these three consolidated subsidiaries, all consolidated subsidiaries and affiliated companies disclosed above use a fiscal year ending March 31, the same as that of the Company.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, bank deposits that can be withdrawn at any time, and short-term investments with an original maturity of three months or less that can be easily converted to cash and are subject to an insignificant risk of change in value.

(c) Inventories

Real estate inventories are stated at cost determined mainly by the specific identification method. Effective year ended March 31, 2009, real estate for sale and real estate projects in progress are devaluated when the profitability of inventories declines.

(d) Investment Securities

Held-to-maturity securities are stated at amortized cost (straight-line method). Marketable securities are stated at fair value adjusted for changes in unrealized gain or loss, and net of applicable income taxes whose changes are recognized directly in net assets. Non-marketable securities are stated at cost. The cost of securities sold is determined by the moving average method.

Investments in limited liability investment partnerships and similar associations are evaluated based on the most recent financial information available, and the net amounts of equity in earnings for these entities are accounted for as additions to or deductions from the carrying amounts of these investments.

(e) Accounting for the Impairment of Fixed Assets

The Company and its consolidated subsidiaries follow the accounting standard for impairment of fixed assets (the Accounting Standard for Impairment of Fixed Assets (the "Standard") and implementation guidance for the Standard (the "Guidance")). The Standard and the Guidance require that fixed assets be reviewed for impairment when events or changes in circumstance indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized in statements of income by directly reducing the carrying value of impairment assets or a group of assets to the recoverable amount (either the net selling price or the value in use, whichever is higher).

(f) Property and Equipment (excluding Leased Assets)

Property and equipment are stated at cost. Depreciation of property and equipment belonging to the Company and its consolidated subsidiaries is calculated principally using the declining balance method; however, the straight-line method is applied to all buildings acquired subsequent to April 1998 as well as three other buildings, based on their estimated useful lives (15 to 50 years for buildings and structures, 5 to 17 years for machinery and vehicles, and 2 to 20 years for tools, furniture and fixtures). Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income when incurred.

A revision of the Corporate Income Tax Law of Japan abolished a rule of 5% salvage value effective with the purchase of property and equipment on or after April 1, 2007. This change in depreciation method also applies to property and equipment purchased earlier than that date, with differences between 5% of the salvage value and (¥1 of) book value to be depreciated for 5 years using the straight-line method from the fiscal year following the fiscal year in which the net book value has been depreciated to the 5% salvage value.

Notes to Consolidated Financial Statements

(g) Leased Assets

Effective year ended March 31, 2008, the Company and its consolidated subsidiaries adopted new accounting standards for lease transactions. Depreciation of the finance leases without transfer of ownership has been calculated the same as owned property and equipment.

(h) Intangible Assets

Intangible assets are stated at cost. Amortization of intangible assets is calculated using the straight-line method. Capitalized software for internal use is amortized over its estimated useful life of five years.

(i) Long-term Prepaid Expenses

Amortization of long-term prepaid expenses is calculated using the straight-line method.

(j) Bond Issuance Expenses

Expenses relating to bond issuance are charged to income when incurred.

(k) Allowance for Doubtful Receivables

The Company and its consolidated subsidiaries provide for an allowance for doubtful receivables to cover estimated probable losses on collection. The allowance consists of a general reserve calculated based on the historical write-off rate of each company, and a specific reserve that is the estimated uncollectible amount with respect to identified doubtful receivables.

(l) Retirement Benefits

Accrued employee retirement benefits have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of pension plan assets as of the balance sheet dates, adjusted for unrecognized actuarial differences and unrecognized prior service costs. The retirement benefit obligation is attributed, using the straight-line method, to each period over the estimated years of service of eligible employees.

When actuarial differences are recognized, they are amortized using the straight-line method over the average remaining service period for eligible employees from the following year.

Prior service costs are amortized using the straight-line method over the estimated years of service of eligible employees from the year when cost is incurred.

Directors and corporate auditors of certain subsidiaries are entitled to lump-sum payments under their respective unfunded severance benefits plans. Provision for the indemnity for such benefits represents the estimated amounts that would be payable if all such beneficiaries were to retire on the balance sheet date. The Company terminated its retirement plan for directors and corporate auditors in June 2007; therefore, no provision for the retirement plan has been made after July 2007.

(m) Allowance for Defect Warranty

Effective year ended March 31, 2009, the Company has provided allowance for defect warranty to cover estimated probable future indemnification in relation to its sales of residential property. The allowance for defect warranty amounted to ¥143 million ($1,464 thousand) for the current portion and ¥60 million ($611 thousand) for the long-term portion as of March 31, 2009. The allowances are included in "Other current liabilities" and "Other long-term liabilities," respectively.

(n) Negative Goodwill

Negative goodwill is the excess of the fair value of the identifiable net assets acquired over the cost of acquisition. The Company amortizes negative goodwill over 20 years using the straight-line method.

Negative goodwill as of March 31, 2009 is offset amount by goodwill; the amount of goodwill and negative goodwill before offsetting is ¥2,570 million ($26,170 thousand) and ¥36,603 million ($372,632 thousand), respectively.

(o) Income Taxes

Deferred income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities.

Deferred tax assets and liabilities are measured using the enacted tax rates applicable to taxable income for the years in which those temporary differences are expected to be recovered or settled.

(p) Revenue Recognition

Revenues from the sale of land and residential homes are recognized when units are delivered and accepted by customers. Revenues from leasing land and buildings are recognized as rent accrued over the lease term. Revenues from finance lease transactions and their costs are recognized when corresponding lease payments are made by customers.

(q) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of these taxes.

(r) Derivatives

The Company and certain subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are stated at fair value, with changes in unrealized gains or losses charged to income, except for those that meet the criteria for deferral hedge accounting in which case unrealized gains or losses are deferred as a component of net assets. Interest rate swaps that meet specific criteria are not re-measured at market value but the differences paid or received under swap agreements are recognized as interest expense or income.

(s) Appropriation of Retained Earnings

In accordance with the Corporation Law of Japan, distribution of capital surplus and retained earnings can be made at any time provided that certain conditions are met, by resolution of the shareholders or by the board of directors.

(t) Accounting Changes

In accordance with changes to the Corporate Income Tax Law of Japan (the Tax Law), the Company and its consolidated subsidiaries account for their property and equipment purchased on and after April 1, 2007, based on

Notes to Consolidated Financial Statements

the new depreciation methods stipulated in the Tax Law from the year ended on March 31, 2008. As a result of this change in depreciation methods, Operating income and Income before income taxes and minority interests decreased by ¥90 million, respectively, for the year ended March 31, 2008. With respect to property and equipment purchased on or before March 31, 2007, differences between the 5% of salvage value and (¥1 of) book value are to be depreciated for 5 years using the straight-line method and included in depreciation expenses. This additional depreciation starts in the fiscal year following the fiscal year in which the net book value of an asset reaches 5% of its acquisition cost. As a result of this change in depreciation methods, Operating income and Income before income taxes and minority interests decreased by ¥304 million for the year ended March 31, 2008.

In the year ended March 31, 2008, the Company and its consolidated subsidiaries adopted the new accounting standard for lease transactions (the Accounting Standard for Lease Transactions (Statement No. 13) and the Guidance on Accounting Standard for Lease Transactions (Guidance No. 16)), early adoption of which was allowed from the year beginning April 1, 2008. Accordingly, effective year ended March 31, 2008, finance leases without transfer of ownership are accounted for as assets and obligations, which until the previous year had been accounted for as operating leases. As a result of the adoption of this new accounting standard, Income before income taxes and minority interests decreased by ¥171 million for the year ended March 31, 2008, however, there was no material effect in Operating income.

In the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for the measurement of inventories (the Accounting Standard for the Measurement of Inventories (Statement No. 9)). Following this new standard, real estate for sale and real estate projects in progress for which profitability has declined are stated at devaluated book value. As a result of this change in measurement of inventories, Operating income and Income before income taxes and minority interests decreased by ¥7,932 million ($80,755 thousand) for the year ended March 31, 2009; loss on devaluation of inventories of ¥8,695 million ($88,527 thousand) is included in Cost of sales.

In the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted the new accounting standard for disclosure of related party transactions (Accounting Standard for Related Party Disclosures (Statement No. 11) and Guidance on Accounting Standard for Related Party Disclosures (Guidance No. 13)). There was no effect on the disclosure of the related party transactions as a result of the adoption.

(u) Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

3. U.S. DOLLAR AMOUNTS

The translation of Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, and uses the exchange rate as of March 31, 2009, which was ¥98.23 to U.S.$1. This translation should not be construed as a representation that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate of exchange.

4. INVENTORIES

Inventories as of March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Real estate for sale	¥ 4,001	**¥ 11,133**	**$ 113,342**
Real estate projects in progress	118,514	**116,527**	**1,186,272**
Raw materials, supplies and others	144	**169**	**1,729**
Total	¥122,660	**¥127,830**	**$1,301,343**

In the year ended March 31, 2009, real estate projects in progress valued at ¥9,033 million ($91,959 thousand) was transferred to property and equipment, and property and equipment valued at ¥1,381 million ($14,064 thousand) was transferred to inventories due to a change in the use of these assets.

5. SECURITIES

(a) The acquisition cost, carrying value and unrealized gains of marketable available-for-sale securities as of March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Acquisition cost:			
Equity securities	¥ 953	**¥ 936**	**$ 9,531**
Total	¥ 953	**¥ 936**	**$ 9,531**
Carrying value:			
Equity securities	¥1,178	**¥1,234**	**$12,565**
Total	¥1,178	**¥1,234**	**$12,565**
Unrealized gains:			
Equity securities	¥ 225	**¥ 298**	**$ 3,034**
Total	¥ 225	**¥ 298**	**$ 3,034**

(b) The carrying value, fair value and unrealized gains of marketable held-to-maturity debt securities which are as of March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Carrying value	¥4,214	**¥4,211**	**$42,879**
Fair value	¥4,342	**¥4,322**	**$44,005**
Unrealized gains	¥ 127	**¥ 110**	**$ 1,126**

(c) The redemption schedule for securities with maturity dates as of March 31, 2008 and 2009, all of which are Japanese government bonds, is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Due within one year	¥ —	**¥ —**	**$ —**
Due after one year and within five years	4,200	**4,200**	**42,757**
Due after five years and within ten years	—	**—**	**—**
Due after ten years	—	**—**	**—**
Total	¥4,200	**¥4,200**	**$42,757**

Notes to Consolidated Financial Statements

(d) The aggregate book value of securities with no available fair value as of March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Unlisted domestic stocks	¥ 313	¥ 338	$ 3,441
Investments in limited partnerships	7,568	9,211	93,771
Other	—	2	30
Total	¥7,881	¥9,552	$97,242

(e) Investments in affiliates as of March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Common stock	¥1,362	¥1,392	$14,179
Total	¥1,362	¥1,392	$14,179

6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt and their weighted average interest rates as of March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate	
	2008	2009	2009	2008	2009
Short-term bank loans	¥ —	¥25,798	$262,638	—%	0.9%
Commercial paper	10,000	9,994	101,743	0.7%	0.5%
Total	¥10,000	¥35,793	$364,381		

As of March 31, 2008 and 2009, long-term debt consists of the following:

Description	Interest rate	Maturity	Millions of yen 2008	Millions of yen 2009	Thousands of U.S. dollars 2009
Unsecured bonds	0.9%	2008	¥ 10,000	¥ —	$ —
Unsecured bonds	1.9%	2016	19,993	19,993	203,542
Unsecured bonds	2.0%	2018	—	19,983	203,436
Secured bonds	2.1%	2013	70,182	68,570	698,063
Secured bonds	1.4%	2009	—	2,950	30,032
Secured bonds	1.6%	2010	—	796	8,108
Borrowings from banks and other financial institutions:					
Secured	0.9-4.4%	2009-2022	41,762	31,689	322,600
Unsecured	0.5-2.9%	2009-2018	299,911	341,293	3,474,437
			441,849	485,277	4,940,218
Less current portion			56,802	47,089	479,376
Total			¥385,046	¥438,188	$4,460,842

The maturities of long-term debt as of March 31, 2009 are summarized as follows:

Fiscal years ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 47,089	$ 479,376
2011	46,200	470,328
2012	68,972	702,154
2013	50,324	512,313
2014 and thereafter	272,691	2,776,047
Total	¥485,277	$4,940,218

7. MORTGAGED ASSETS

Mortgaged assets and corresponding debt as of March 31, 2008 and 2009 are as follows:

(a) Mortgaged assets:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Inventories	¥ 13,172	¥ 3,138	$ 31,949
Buildings and structures	121,170	115,071	1,171,446
Land	13,189	13,189	134,275
Total	¥147,532	¥131,399	$1,337,670

(b) Corresponding debt secured by the above collateral:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Current portion of long-term debt	¥10,073	¥ 7,362	$ 74,947
Long-term debt	31,689	24,327	247,653
Total	¥41,762	¥31,689	$332,600

Mortgaged assets and corresponding debt regarding debt with limited recourse as of March 31, 2008 and 2009 are as follows:

(a) Mortgaged assets:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Cash and cash equivalents	¥ 5,308	¥ 5,987	$ 60,958
Real estate projects in progress	—	1,023	10,416
Other current assets	237	218	2,227
Buildings and structures	58,577	56,838	578,630
Land	171,400	173,947	1,770,822
Other property and equipment	122	614	6,259
Intangible assets	4	3	33
Long-term prepaid expenses	369	343	3,501
Total	¥236,019	¥238,978	$2,432,846

Notes to Consolidated Financial Statements

(b) Corresponding debt secured by the above collateral:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Current portion of bonds	¥ 1,611	**¥ 5,109**	**$ 52,014**
Bonds	68,570	**67,207**	**684,189**
Total	¥70,182	**¥72,317**	**$736,203**

Debt with limited recourse corresponds to bonds issued by UDX Tokutei Mokuteki Kaisha, UD Fund II Tokutei Mokuteki Kaisha and UD Fund III Tokutei Mokuteki Kaisha; repayment of debt is limited to assets of these companies such as the above-mentioned mortgaged assets.

8. LEASE TRANSACTIONS

(Finance lease transactions)

As described in Note 2. (t) Accounting Changes, the Company and its consolidated subsidiaries have represented their leased assets and liabilities recognized by finance lease transactions on the consolidated balance sheet since the year ended March 31, 2008, applying the accounting change in lease transactions.

(a) Lessee — Leased assets under finance leases as of March 31, 2009 mainly consist of servers, computers (included in "Tools, furniture and fixtures") and software, all of which are used for the leasing business.

The maturities of finance lease obligations as of March 31, 2009 are summarized as follows:

Fiscal years ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	**¥179**	**$1,824**
2011	**123**	**1,253**
2012	**73**	**751**
2013	**39**	**401**
2014 and thereafter	**21**	**219**
Total	**¥436**	**$4,448**

(b) Lessor — Finance lease investments as of March 31, 2009 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Current assets:		
Lease receivables portion	**¥1,160**	**$11,811**
Estimated residual value of leased assets	**—**	**—**
Interests receivable equivalent	**(671)**	**(6,842)**
Finance lease investments	**¥ 488**	**$ 4,969**

The maturities of finance lease receivables and the lease receivables portion of finance lease investments as of March 31, 2009 are summarized as follows:

	Finance lease receivables		Finance lease investments	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Due within one year	**¥ 39**	**$ 397**	**¥ 5**	**$ 51**
Due after one year and within two years	**39**	**397**	**5**	**55**
Due after two years and within three years	**39**	**397**	**5**	**59**
Due after three years and within four years	**39**	**397**	**6**	**63**
Due after four years and within five years	**39**	**397**	**6**	**68**
Due after five years	**965**	**9,826**	**458**	**4,673**

(Operating lease transactions)

(a) Lessee — The amounts of outstanding future minimum lease payments of non-cancelable operating leases as of March 31, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Due within one year	¥ 855	¥ 1,562	$ 15,910
Due after one year	12,722	21,657	220,482
Total	¥13,578	¥23,220	$236,392

(b) Lessor — The amounts of outstanding future minimum lease receipts of non-cancelable operating leases as of March 31, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Due within one year	¥ 9,839	¥ 9,860	$ 100,385
Due after one year	71,375	62,247	633,687
Total	¥81,215	¥72,107	$734,072

9. RETIREMENT BENEFIT PLANS

The Company and its consolidated subsidiaries have defined benefit plans for employees, consisting of corporate defined benefit pension plan, contract-type corporate pension plans and lump-sum payment plans. These plans are based on an employee's base salary, length of service, and conditions under which termination of employment occurs.

The following table sets forth the plan's funding and accrual status and amounts recognized in consolidated balance sheets as of March 31, 2008 and 2009 for defined benefit plans of the Company and its consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Retirement benefit obligation	¥(8,660)	¥(9,076)	$(92,398)
Plan assets at fair value	4,522	4,139	42,142
Unfunded retirement benefit obligation	(4,137)	(4,936)	(50,256)
Unrecognized net actuarial gains	(846)	(318)	(3,242)
Unrecognized prior service costs	(0)	(0)	(5)
Accrued employees' retirement benefits	¥(4,984)	¥(5,255)	$(53,503)

The components of retirement benefit expenses for the years ended March 31, 2008 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Service costs	¥ 309	¥ 353	$ 3,601
Interest costs	201	213	2,173
Expected return on plan assets	(118)	(116)	(1,182)
Amortization of net actuarial gains	(71)	(69)	(710)
Amortization of prior service costs	0	0	1
Employees' contribution	(14)	(15)	(155)
Retirement benefit expenses	¥ 304	¥ 366	$ 3,728

Notes to Consolidated Financial Statements

The assumptions used in accounting for the above plans as of March 31, 2008 and 2009 are as follows:

	2008	2009
Discount rates	2.5%	**2.5%**
Expected rate of return on assets	2.5%	**2.5%**
Amortization period of unrecognized actuarial differences	9.6~13.2 years	**9.3~13.2 years**
Amortization period of unrecognized prior service costs	11.2~11.5 years	**11.2~11.5 years**

Transfer of the substitutional portion of employee pension funds to the government:

The retirement plan for the Company and its consolidated subsidiaries had included a portion of the Japanese government pension plan under the Welfare Pension Insurance Law of Japan, in addition to their retirement benefit plans. On September 1, 2003, under the Defined Benefit Corporate Pension Law, the Company and some of its subsidiaries gained an exemption from future payment obligations of the substitutional portion of employee pension funds from the Minister of Health, Labor and Welfare. Furthermore, approval for a return of employee benefits paid during previous periods was received on July 1, 2007, and repayment of an amount equal to the minimum liability reserve to the government was made on February 26, 2008, funded as a substituted portion of the employee pension plan. As a result, a gain of ¥664 million on the return of the substitutional portion of the employee pension plan was recognized in year ended March 31, 2008, and recorded in "Other, net," which is included in "Other income (expenses)."

10. SHAREHOLDERS' EQUITY

The Corporation Law provides that an amount equal to 10% of distribution of surplus (aggregate of capital surplus and retained earnings) must be appropriated as a legal reserve or as additional paid-in capital depending on which surplus is distributed, until the total of such reserve and additional paid-in capital equals 25% of common stock. The Company has appropriated retained earnings to the legal reserve in relation to the distribution of retained earnings. The legal reserve amounted to ¥3,437 million ($34,993 thousand) as of March 31, 2008 and 2009, which is included in retained earnings.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2008 and 2009 consist primarily of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Salaries, allowances and bonuses	¥3,970	**¥4,397**	**$44,763**
Outsourcing	2,370	**3,025**	**30,800**
Advertising expenses	1,817	**2,350**	**23,926**
Dues and taxes	1,852	**1,310**	**13,340**
Employees' retirement benefits	220	**280**	**2,857**
Directors' and corporate auditors' retirement benefits	23	**22**	**228**
Allowance for doubtful receivables	—	**1**	**11**

12. IMPAIRMENT LOSS ON FIXED ASSETS

In the year ended March 31, 2009, the Company and its consolidated subsidiaries recognized impairment losses on the following groups of assets:

Description	Classification	Location	Millions of yen	Thousands of U.S. dollars
Office building	Building	Takamatsu-shi, Kagawa	¥457	$4,654

The Company and its consolidated subsidiaries reviewed impairment of fixed assets for each piece of real estate. As a result, the office building above was recognized as impaired due to a decline in profitability caused by the weak market condition. The carrying amount of the impaired asset was reduced to the recoverable amount, and the reduced value was recorded as "Impairment loss" which is included in "Other income (expenses)."

The Company and its consolidated subsidiaries assess the recoverability of assets based on their net selling prices or values in use. Net selling prices are determined mainly by the appraisal value calculated by real estate appraisers, while values in use are calculated based on the present values of future cash flow using a 5% discount rate.

13. OTHER INCOME (EXPENSES)

The components of "Other, net" in "Other income (expenses)" for the years ended March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Dividend income	¥ 31	¥ 46	$ 472
Contributions received in aid of construction	112	92	941
Gain on donated fixed assets	67	33	337
Gain on sales of property and equipment	79	12,037	122,543
Gain on transfer of substituted portion of employee pension plan to the government	664	—	—
Loss on sales of property and equipment	(5)	(1,136)	(11,573)
Loss on disposal of property and equipment	(1,724)	(1,892)	(19,263)
Effect of change in finance lease accounting	(171)	—	—
Extraordinary depreciation of fixed assets	—	(479)	(4,885)
Other	17	(389)	(3,966)
Total	¥ (929)	¥ 8,310	$84,606

The components of "Gain on sales of property and equipment" and "Loss on sales of property and equipment" in "Other income (expenses)" for the years ended March 31, 2008 and 2009 are as follows:

(a) Gain on sales of property and equipment

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Buildings and structures	¥ 506	¥ (1,280)	$ (13,039)
Land	(427)	13,318	135,582
Total	¥ 79	¥12,037	$122,543

Regarding the sale of fixed assets comprising a building with attached land in the year ended March 31, 2008, the Company recognized a gain on the buildings and a loss on the land. The net gain resulting from such transactions was recorded as "Gain on sales of property and equipment."

Notes to Consolidated Financial Statements

(b) Loss on sales of property and equipment

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Buildings and structures	¥(5)	¥ (774)	$ (7,884)
Land	—	(362)	(3,689)
Total	¥(5)	¥(1,136)	$(11,573)

At the sales of fixed assets comprising a building with attached land, the Company offsets the gains and losses from the transactions. A net gain or loss resulted from the transactions was recorded as "Gain (Loss) on sales of property and equipment."

The components of "Loss on disposal of property and equipment" in "Other income (expenses)" for the years ended March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Buildings	¥ (910)	¥ (844)	$ (8,602)
Structures	(12)	(125)	(1,273)
Machinery	(35)	(35)	(357)
Removal cost	(731)	(770)	(7,843)
Tools, furniture and fixtures	(35)	(116)	(1,188)
Total	¥(1,724)	¥(1,892)	$(19,263)

14. INCOME TAXES

Income taxes in Japan applicable to the Company and its consolidated subsidiaries consist of corporation tax, inhabitant taxes and enterprise taxes, which, in aggregate, resulted in a statutory tax rate of 40.7% in both 2008 and 2009.

The table below presents a reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2009. The reconciliation for the year ended March 31, 2008 is omitted because the total of these differences is less than 5% of the statutory tax rate.

	2009
Statutory tax rate	40.7%
Adjustments:	
Amortization of negative goodwill	(2.9)
Loss of a consolidated subsidiary (Tokutei Mokuteki Kaisha) attributable to minority interests	(2.5)
Other	0.3
Effective tax rate	35.6%

The significant components of deferred tax assets and liabilities as of March 31, 2008 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Deferred tax assets:			
Accrued bonuses	¥ 175	¥ 174	$ 1,775
Enterprise taxes payable	622	116	1,186
Real estate acquisition taxes payable	256	188	1,922
Loss on devaluation of inventories	—	552	5,627
Loss on land devaluation	2,455	2,865	29,170
Depreciation	1,521	1,653	16,830
Accrued employees' retirement benefits	2,025	2,136	21,746
Loss on impairment of fixed assets	609	778	7,924
Compensation for loss	1,322	734	7,476
Other	501	1,073	10,927
Total	9,489	10,273	104,583
Deferred tax liabilities:			
Depreciation reserve for tax purposes	(3,819)	(7,935)	(80,785)
Unrealized gains on evaluation of newly consolidated subsidiary's assets	(61,191)	(60,983)	(620,826)
Other	(182)	(295)	(3,010)
Total	(65,192)	(69,214)	(704,621)
Net deferred tax assets (liabilities)	¥(55,703)	¥(58,941)	$(600,038)

15. AMOUNTS PER SHARE

	Millions of yen		Thousands of U.S. dollars
	2008	2009	2009
Net income	¥14,758	¥15,989	$162,779
Amounts not attributable to common stock	—	—	—
Net income attributable to common stock	¥14,758	¥15,989	$162,779
Average amount of common stock outstanding during the year	3,291,200 shares	3,291,200 shares	

	Yen		U.S. dollars
	2008	2009	2009
Basic net income per share	¥ 4,484.09	¥4,858.34	$49.46
Cash dividends per share	1,200	1,200	12.22

	Yen		U.S. dollars
	2008	2009	2009
Net assets per share	¥41,442.57	¥45,014.04	$458.25

Diluted net income per share is not disclosed because the Company does not have any dilutive securities. Basic net income per share was computed by dividing the net income available for distribution to shareholders of common stock by the weighted average number of shares of common stock outstanding during the year. Cash dividends per

Notes to Consolidated Financial Statements

share represent cash dividends proposed by the board of directors as applicable to the respective years plus interim cash dividends paid. Net assets per share were computed by dividing net assets available for distribution to shareholders of common stock by the number of shares of common stock outstanding at the year end.

16. DERIVATIVE TRANSACTIONS

The Company and certain subsidiaries have entered into derivative transactions in order to manage certain risks arising from adverse fluctuations of interest rates, but have not entered into such transactions for speculative or trading purposes. The Company and certain subsidiaries are exposed to credit risk in the event of nonperformance by counterparties in interest rate contracts; however, the Company's management believes that any such loss would be immaterial, because all of such counterparties are banks with high credit ratings. The notional amounts and estimated fair value of outstanding derivative transactions are omitted because interest rate swap hedge accounting is applied for all derivative transactions.

Principal hedging items and hedged items are as follows:

Hedging items: interest rate swap contracts

Hedged items: borrowings

Under the Company's internal rules that prescribe the persons authorized to execute derivative transactions, as well as limits and other items concerning derivative transactions, transactions are executed by the finance department upon approval of the director in charge. Periodic assessment of hedge effectiveness is not performed because swaps are interest swaps to which special matching criteria are applied.

17. RELATED PARTY TRANSACTIONS

The Company has in the ordinary course of business engaged in transactions with NTT, NTT's other consolidated subsidiaries, and its affiliated companies.

Related party transactions for the year ended March 31, 2008 are as follows:

	2008	
Nature of relationship	Subsidiary of parent company	Subsidiary of parent company
Name of the related party	Nippon Telegraph and Telephone West Corporation	NTT Finance Corporation
Equity ownership percentage	—	(Owned) 1.4%
Description of transaction	a) Purchase of land for sale b) Purchase of land	Long-term borrowing
Transaction amount	a) ¥13,791 million b) ¥210 million	¥27,000 million
Balance at year-end	Accounts payable: ¥13,791 million Other current liabilities: ¥210 million	Long-term borrowing: ¥71,200 million

Related party transactions for the year ended March 31, 2009 are as follows:

	2009	
Nature of relationship	**Subsidiary of parent company**	**Subsidiary of parent company**
Name of related party	**NTT Communications Corporation**	**NTT Finance Corporation**
Equity ownership percentage	**—**	**(Owned) 1.0%**
Description of transaction	**Purchase of land for sale**	**Long-term borrowing**
Transaction amount	**¥18,110 million ($184,363 thousand)**	**¥23,000 million ($234,144 thousand)**
Balance at year-end	**—**	**Short-term borrowing ¥13,798 million ($140,476 thousand)** **Current portion of long-term borrowing ¥18,600 million ($189,352 thousand)** **Long-term borrowing ¥78,200 million ($796,091 thousand)**

The terms of the above related party transactions were the same as those for general third-party transactions.

18. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the real estate business. Business is principally classified into the following three segments in terms of type, nature and business market: leasing, residential property sales, and other. The leasing business engages mainly in the leasing of building space. The residential property sales business engages mainly in the sale of residential housing, primarily condominiums and houses. The other business engages mainly in property management.

The business segment information for the Company and its consolidated subsidiaries for years ended March 31, 2008 and 2009 is as follows:

	Millions of yen					
	2008					
	Leasing	Residential property sales	Other	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales to third parties	¥ 89,679	¥ 38,414	¥10,111	¥138,206	¥ —	¥138,206
Inter-segment sales and transfers	237	0	3,734	3,971	(3,971)	—
Total sales	89,917	38,415	13,845	142,178	(3,971)	138,206
Operating expenses	63,891	31,821	12,872	108,585	902	109,488
Operating income	¥ 26,025	¥ 6,593	¥ 973	¥ 33,592	¥(4,873)	¥ 28,718
Assets, depreciation and capital expenditures:						
Total assets	¥756,955	¥128,258	¥10,439	¥895,654	¥ 4,671	¥900,325
Depreciation and amortization	22,924	8	60	22,992	253	23,246
Capital expenditures	76,458	5	24	76,489	224	76,713

Notes to Consolidated Financial Statements

	Millions of yen					
	2009					
	Leasing	Residential property sales	Other	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales to third parties	¥ 99,210	¥ 32,688	¥12,377	¥144,277	¥ —	¥144,277
Inter-segment sales and transfers	717	—	4,246	4,963	(4,963)	—
Total sales	99,928	32,688	16,624	149,241	(4,963)	144,277
Operating expenses	64,367	38,706	15,123	118,198	834	119,032
Operating income	¥ 35,560	¥ (6,018)	¥ 1,500	¥ 31,042	¥(5,798)	¥ 25,244
Assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	¥795,286	¥133,099	¥ 7,322	¥935,708	¥ 942	¥936,650
Depreciation and amortization	25,476	8	76	25,560	201	25,762
Loss on impairment of fixed assets	457	—	—	457	—	457
Capital expenditures	63,380	0	169	63,550	1,451	65,002

	Thousands of U.S. dollars					
	2009					
	Leasing	Residential property sales	Other	Total	Eliminations or Corporate	Consolidated
Sales and operating income:						
Sales to third parties	$1,009,982	$ 332,776	$126,010	$1,468,768	$ —	$1,468,768
Inter-segment sales and transfers	7,305	—	43,229	50,534	(50,534)	—
Total sales	1,017,287	332,776	169,239	1,519,302	(50,534)	1,468,768
Operating expenses	655,270	394,044	153,965	1,203,279	8,497	1,211,776
Operating income	$ 362,016	$ (61,268)	$ 15,274	$ 316,023	$(59,031)	$ 256,992
Assets, depreciation and amortization, loss on impairment of fixed assets and capital expenditures:						
Total assets	$8,096,169	$1,354,973	$ 74,540	$9,525,083	$ 9,598	$9,535,281
Depreciation and amortization	259,352	84	774	260,210	2,055	262,265
Loss on impairment of fixed assets	4,654	—		4,654	—	4,654
Capital expenditures	645,227	8	1,722	646,957	14,776	661,733

Operating expenses not attributable to business segments are included in Eliminations or Corporate. These amounted to ¥4,873 million and ¥5,798 million ($59,031 thousand) for the years ended March 31, 2008 and 2009, respectively.

Assets not attributable to the business segments, but included in Eliminations or Corporate, are mainly cash and cash equivalents, investment securities and assets for administration. The balances of assets not attributable to the business segments amounted to ¥4,671 million and ¥6,411 million ($65,273 thousand) as of March 31, 2008 and 2009, respectively.

Capital expenditures and depreciation include payment for long-term prepaid expenses and the related amortization expense.

As described in Note 2. (t) Accounting Changes, there have been accounting changes in the depreciation method of property and equipment and in lease transactions of the Company and its consolidated subsidiaries since the year ended on March 31, 2008. As a result of the change in the depreciation method of property and equipment, Operating income of the leasing business decreased by ¥90 million as compared with the corresponding amount under the previous method. There was no material effect in Operating income by the adoption of a new accounting standard for lease transactions. Additionally, in the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted a new accounting standard for the measurement of inventories. As a result of this change in measurement, Operating income of the residential property sales business decreased by ¥7,932 million ($80,755 thousand) when compared to the corresponding amount under the previous method.

In the year ended March 31, 2009, assets of ¥9,033 million ($91,959 thousand) that had been included in the residential property sales business were transferred to the leasing business and assets of ¥1,381 million ($14,064 thousand) that had been included in the leasing business were transferred to the residential property sales business due to the change in use of these assets. An increase in Total assets of the leasing business that resulted from these transfers is not included in Capital expenditures of the leasing business.

Because none of the Company's consolidated subsidiaries or important branches are located outside Japan, nor does the Company engage in overseas sales, the Company has not disclosed geographic segment information regarding overseas sales.

19. CONTINGENT LIABILITY

The Company has received a claim for a return of the net amount of deposit paid by a tenant less corresponding rents and penalty receivable, on a breach of a fixed-period lease contract that was cancelled due to bankruptcy on the part of the tenant under the Corporate Rehabilitation Law. The amount of the contingent liability is ¥223 million ($2,276 thousand), which may become payable depending on the court's decision.

20. SUBSEQUENT EVENTS

The following appropriation of retained earnings for the Company (which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009) was approved at the general shareholders' meeting held on June 18, 2009:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥600 per share (U.S.$6.11))	¥1,974	$20,103

Independent Auditors' Report

To the Board of Directors of
NTT Urban Development Corporation:

We have audited the accompanying consolidated balance sheets of NTT Urban Development Corporation and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NTT Urban Development Corporation and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
As discussed in the note 2(t) to the consolidated financial statements titled "Accounting Changes", effective for the year ended March 31, 2009, NTT Urban Development Corporation and its subsidiaries adopted a new accounting standard for measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 18, 2009

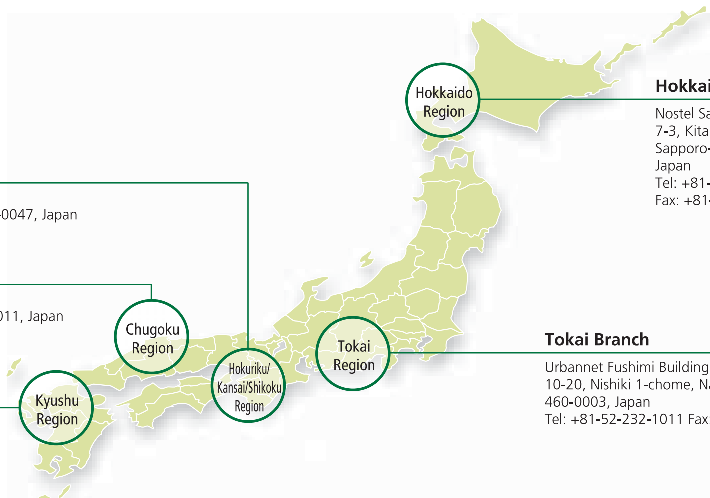
Corporate Data
Affiliated Companies and Branch Network

Affiliated Companies (As of March 31, 2009)

		Capitalization (Millions of yen)	Ownership Including Voting Rights (%)	Fields of Operation
Consolidated Subsidiaries				
NTT Urban Development Hokkaido BS Co.	Chuo, Sapporo	50	100.0	Maintenance and management of buildings and condominiums and management of parking lots in Hokkaido area
Otemachi First Square Inc.	Chiyoda, Tokyo	50	56.5	Management and operation of Otemachi First Square
NTT Urban Development Builservice Co.	Chiyoda, Tokyo	300	100.0	Remodeling, management, and operation of buildings in the greater Tokyo metropolitan area
Knox Twenty-One Co., Ltd.	Minato, Tokyo	24	100.0	Operation of NTT Group's convention facilities
DN Food Co., Ltd.	Chiyoda, Tokyo	40	100.0	Operation of restaurants catering to tenants of buildings owned by NTT Urban Development
NTT Urban Development West BS Co.	Chuo, Osaka	100	100.0	Maintenance and management of buildings and condominiums and remodeling in western Japan area
Motomachi Parking Access Co., Ltd.	Naka, Hiroshima	60	58.3	Maintenance of underground passages in Hiroshima's Motomachi area
NU-4 Tokumei Kumiai	Chuo, Tokyo	2,037	100.0	Investment vehicle for NTT Urban Development's real estate investments
UD Fund II Tokutei Mokuteki Kaisha	Chuo, Tokyo	249	100.0	Development of Futsukamachi 1-7 district, Aoba-ku, Sendai
UDX Tokutei Mokuteki Kaisha	Chuo, Tokyo	14,100	66.0	Development and ownership of Akihabara UDX
UD Fund III Tokutei Mokuteki Kaisha	Chuo, Tokyo	350	100.0	Development of 19-2, Masuicho 1-chome district, Himeji-shi and two other projects
Nagasaki Shintomachi New Town Tokutei Mokuteki Kaisha	Minato, Tokyo	429	46.6	Development of Nagasaki Shintomachi New Town
Affiliated Companies				
Tokyo Opera City Building Co., Ltd.	Shinjuku, Tokyo	20	23.7	Management of Tokyo Opera City Building
DHC Tokyo Co., Ltd.	Minato, Tokyo	200	50.0	District heating and cooling services for Granpark
Tokyo Opera City Heat Supply Co., Ltd.	Shinjuku, Tokyo	980	36.2	District heating and cooling services for Tokyo Opera City
Crossfield Management Corporation	Chiyoda, Tokyo	10	38.0	Development and management of Akihabara Crossfield
Harumi Yonchome City Planning Design Co.	Chuo, Tokyo	18	36.1	Investigation and planning relating to the development of the Harumi 4-chome area

Note: UDX Tokutei Mokuteki Kaisha is a specified subsidiary.

Branch Network



Hokkaido Branch
Nostel Sapporo Building
7-3, Kita 1-jo Nishi, Chuo-ku, Sapporo-shi, Hokkaido 060-0001, Japan
Tel: +81-11-261-6750
Fax: +81-11-261-5008

Kansai Branch
UD Midousuji Building
2-15, Awajimachi 4-chome, Chuo-ku, Osaka-shi, Osaka 541-0047, Japan
Tel: +81-6-6208-3939 Fax: +81-6-6208-3888

Chugoku Branch
NTT Cred Motomachi Building
6-78, Motomachi, Naka-ku, Hiroshima-shi, Hiroshima 730-0011, Japan
Tel: +81-82-222-8623 Fax: +81-82-222-8620

Tokai Branch
Urbannet Fushimi Building
10-20, Nishiki 1-chome, Naka-ku, Nagoya-shi, Aichi 460-0003, Japan
Tel: +81-52-232-1011 Fax: +81-52-232-1012

Kyushu Branch
NTT-KF Building
4-38, Tenjin 2-chome, Chuo-ku, Fukuoka-shi, Fukuoka 810-0001, Japan
Tel: +81-92-731-6633 Fax: +81-92-731-0978

History

Information on Operations	Year	Completed Construction
• March: Commenced operation of real estate fund "NU-5 Fund"	2009	• April: Otemachi 1-chome Urban Area Redevelopment Project Type 1 completed
• December: Established brand logo mark for WELLITH residential property sales brand	2008	• February: Wellith Azabu Mamiana completed
• November: Formulated Medium-Term Management Plan 2010 • April: Commenced new graduate recruitment	2007	• October: Wellith Garden Urawa Kishimachi completed
• December: Established NTT Urban Development West BS Co. • November: Won joint bid with Mitsubishi Estate Co., Ltd., for the Osaka Station North District Phase 1 Development Area Project Blocks A and C • May: Won joint bid with ORIX Real Estate Corporation for the Osaka Station North District Phase 1 Development Area Project Block B • March: Commenced operation of real estate fund "NU-1 Fund"	2006	• March: Grand Wellith Seta completed • March: Akihabara UDX completed
• June: Announced participation in the Otemachi redevelopment project • May: Formulated Medium-term management plan, Change & Proceed to 2007 (C&P07)	2005	• September: Urbannet Nagoya Building completed
• November: Company shares listed on the First Section of the Tokyo Stock Exchange	2004	• October: Urbannet Sapporo Building completed • January: Quest Court Harajuku completed
	2003	• May: Urbannet Hakata Building completed • February: Grand Wellith Tetsugakudo Koen completed
• March: Formulated long-term vision, Change & Proceed to 2015 (C&P15) • February: Bid on and acquired Akihabara lots 1 and 3 in cooperation with Daibiru Corporation and Kajima Corporation	2002	
	2001	• August: Wellith Nagatsuda completed • January: Shin-Puh-Kan completed
• September: WELLITH condominium brand launched • June: NTT Urban Development BuilService Co. established • April: Residential property sales business began	2000	
• April: Merger with NTT Tokai Real Estate Co., NTT Kansai Building Co., NTT Cred Co., NTT Kyushu Real Estate Co., and NTT Hokkaido Estate Co., Creation of a New Foundation for NTT Urban Development Co.	1999	
	1997	• May: Stage II of Otemachi First Square (East Tower) completed
	1996	• October: Granpark completed • July: Tokyo Opera City completed
• February: Merger with NTT Estate Co.	1995	
	1994	• April: NTT Cred Motomachi Building (Pacela) completed
• April: Merger with NTT Actif Co. and NTT Crais Co.	1993	• June: NTT Makuhari Building completed
	1992	• February: Stage I of Otemachi First Square (West Tower) completed
	1991	• January: Seavans Building completed
	1990	• June: Urbannet Otemachi Building completed
• October: Merger with NTT Building Co.	1988	• April: Harajuku Quest completed
	1987	• September: Urbannet Mita Building completed • June: Urbannet Kojimachi Building completed
• January: NTT Urban Development Co. established	1986	• Construction began on Urbannet Kojimachi Building, the Company's first building

• Leasing Business • Residential Property Sales Business

Investor Information (As of March 31, 2009)

Company Information

Official Name	NTT URBAN DEVELOPMENT CORPORATION
Headquarters	14-1, Sotokanda 4-chome, Chiyoda-ku, Tokyo 101-0021, Japan
Established	January 21, 1986
Paid-in Capital	¥48,760 million
Employees	619 (consolidated basis)
Branches	Tokyo, Kansai, Chugoku, Kyushu, Hokkaido

Corporate Officers (As of July 2009)

President and Chief Executive Officer	Masaki Mitsumura
Senior Executive Director	Kimito Muragishi
Executive Directors	Hiroto Miyake Seiya Wakaizumi Michihiko Kaite Hideo Osawa
Senior Directors	Hideki Tokunaga Akitoshi Ito Takahiro Okuda Yoshiharu Nishimura Satoshi Shinoda Kazuhiro Hasegawa Hiroshi Iijima Shiro Nakahara Isao Yamauchi
Corporate Auditors	Hikozaemon Enoki Hitoshi Ikeda Akio Enomoto
Corporate Auditor (part-time)	Hisakazu Tagawa

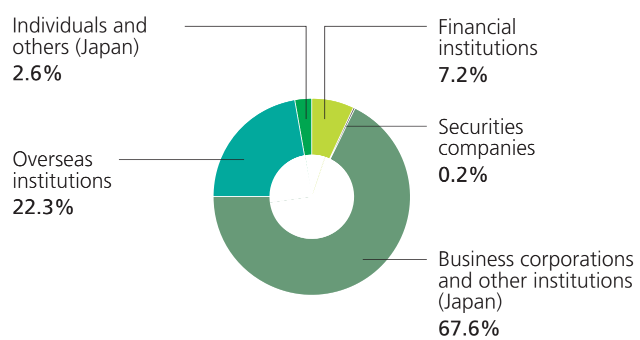
Share Information

Common Stock:	
Number of authorized shares	10,500,000
Number of issued and outstanding shares	3,291,200
Shareholders	14,187

Principal Shareholders (Top 10)

Name of Shareholders	Number of Shares Held	Equity Position (%)
NIPPON TELEGRAPH AND TELEPHONE CORPORATION	2,214,815	67.30%
STATE STREET BANK AND TRUST COMPANY	91,723	2.79%
The Master Trust Bank of Japan, Ltd. (Trust account)	72,552	2.20%
Japan Trustee Services Bank, Ltd. (Trust account 4G)	62,616	1.90%
Japan Trustee Services Bank, Ltd. (Trust account)	53,534	1.63%
JP MORGAN CHASE BANK 380084	52,278	1.59%
BANK OF NEW YORK — TAX TREATY JASDEC OMNIBUS 2	32,243	0.98%
THE BANK OF NEW YORK — TREATY JASDEC ACCOUNT	22,960	0.70%
MELLON BANK TREATY CLIENTS ONMIBUS	22,439	0.68%
The Chase Manhattan Bank, NA London SL Omnibus Account	21,166	0.64%

Shareholder Distribution (Percentage investment)



NTT Urban Development Co.

14-1, Sotokanda 4-chome, Chiyoda-ku, Tokyo 101-0021, Japan
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